

The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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AUSTIN H. CARR, Editor,
10 Adelaide Street East, Toronto

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AUGUST, 1939

ISSUE No. 193

(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)

The Annual Meeting at Saskatoon

This month the members of the Dominion Association gather in the great grain-growing province of Saskatchewan.

Here Ceres' gifts in waving prospect stand
And nodding tempt the joyful reaper's hand—*Pope*.

At this season when the fields of golden grain present a glorious picture to the eye, when the prairies after years of waiting are looking to a bumper crop and to happier conditions throughout the West, our members are invited to partake of that "Western hospitality" known far and wide.

Then, too, in contrast to the agricultural scene, there lies to the north of our Convention City, glorious Prince Albert National Park. A drive has been arranged to this enchanting spot where Nature in forest, lakes and streams is clothed in beauty unsurpassed elsewhere in Canada.

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

PROGRAMME

of the 1939 Annual Meeting of the Association
to be held in Saskatoon

Monday, August 21st

- 9.30 a.m. Meeting of Executive Committee
- 2.30 p.m. Meeting of Council

Tuesday, August 22nd

- 9.30 a.m. Meeting of Council (continued)
- 1.00 p.m. President's luncheon to Council Members
- 2.30 p.m. Meeting of Council (continued)
- 7.00 p.m. Registration.
- 8.00 p.m. Committees of Council
- 9.00 p.m. Informal reception to visiting members and ladies at the Bessborough Hotel

Wednesday, August 23rd

- 8.30 a.m. Registration
- 9.30 a.m. First general session
 - Addresses of welcome
 - Address of President
 - Reports of Constituent Institutes
 - Reports of Council and of Committees
 - General discussion
- 12.00 noon Adjournment
- 2.30 p.m. Golf Match—Dominion vs. Saskatchewan Institute for Challenge Cup
- 2.30 p.m. Entertainment for ladies and for members not playing golf
- 9.00 p.m. Supper dance as guests of the Institute of Chartered Accountants of Saskatchewan

Thursday, August 24th

- 9.30 a.m. Second general session—general business
- 10.30 a.m. Paper, "Some Problems of the Practising Accountant" by George R. Freeman, F.C.A., London, Past President of the Institute of Chartered Accountants in England and Wales.
- 1.00 p.m. Luncheon for members and ladies as guests of the Institute of Chartered Accountants of Saskatchewan
 - Address by Clem W. Collins, C.P.A., Denver, Colorado, President of the American Institute of Accountants.
- 2.30 p.m. Third general session
 - Roundtable discussion of the subject "Inventory valuation of public manufacturing companies," J. W. Taylor, F.C.A., Toronto, Chairman.
- 7.30 p.m. Annual banquet of The Dominion Association of Chartered Accountants
 - Address

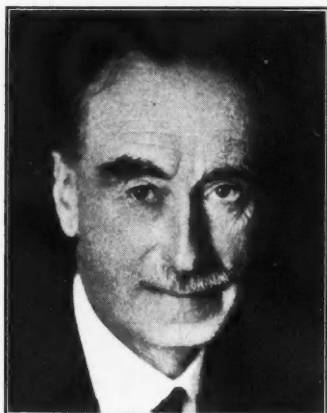
Friday, August 25th

A drive to Prince Albert National Park has been arranged for all Members and their Ladies who wish to go.

A special programme of entertainment for the ladies during the entire convention will be under the direction of a Ladies' Entertainment Committee.

The Dominion Association of Chartered Accountants

The Annual Meeting of 1939



GEORGE R. FREEMAN
London, England

Official Representative of The
Institute of Chartered Account-
ants in England and Wales and
one of the Speakers of the
Annual Meeting



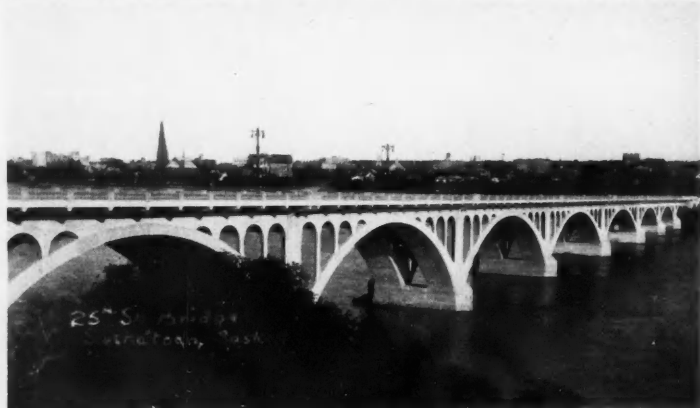
CLEM W. COLLINS
Denver, Colorado

President of The American
Institute of Accountants and
one of the Speakers of the
Annual Meeting



WILFRED STEMPEL
Saskatoon

President of The Institute of
Chartered Accountants of Sas-
katchewan and Chairman of
the Committee on Convention
Arrangements

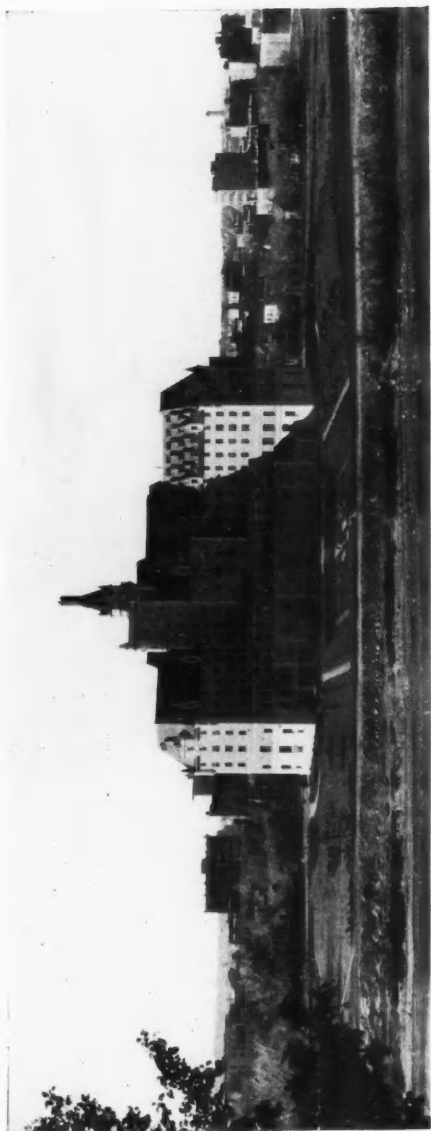


Glimpses of Saskatoon and vicinity—Twenty-first Street,
Twenty-fifth Street Bridge, and Waskesiu Golf Course



One of the University buildings, Waskesiu Lake, and
the Golf Clubhouse

The Dominion Association of Chartered Accountants



The beautiful Bessborough Hotel, Saskatoon, Headquarters of the Thirty-Seventh Annual Meeting of the Association, August 21st to 24th

Editorial Comment

(Contributed)

*Depreciation
Accounting and
Retirement
Accounting*

"Retirement accounting" as a method of calculating the periodic income of a railroad or other public utility is commonly credited with a precision which it does not possess. The term would seem to include any method of maintaining the capital investment other than by making regular charges for depreciation from the date of installation of fixed assets which charges are based on careful estimates of the "useful" or economic life of the assets. These other methods range from the practice of charging against current income the whole cost of property retired as and when it is retired, to the practice of creating retirement reserves by random transfers from surplus for the purpose of roughly equalizing the burden of retirements over successive years.

The depreciation method in theory (i.e. on the large assumption that the estimates of risks of obsolescence are correct) makes the consumers who benefit from a property pay for that property. The underlying theory of the retirement method is that those who receive the benefits of new facilities should share in the losses attendant upon the abandonment of the superseded equipment. The respective theoretical merits of the two methods are still warmly debated but in practice the depreciation method is finding increasing favour with regulatory bodies particularly in the United States where the Federal Power Commission and state commissions have prescribed the uniform adoption of depreciation accounting from now on. Whether these bodies will stultify their rulings by attempting to make the practice retroactive (as the Interstate Commerce Commission has done with the railroads) remains to be seen.

The practical advantage of the depreciation method is of course that it results in a much stronger financial position than does the retirement method since it involves the steady creation of reserves represented, in the first place at least, by liquid assets which, though eventually used to replace retired property, meanwhile improve greatly the working capital position. In this connection it is notable that the American Telegraph and Telephone Company

which has consistently practised straight line depreciation is generally recognized as one of the soundest utilities in the United States whilst many railways and other kinds of utilities which have practised retirement accounting are in dire financial straits in that country. It would be surprising indeed if regulatory bodies were not impressed by practical examples of this kind—whose counterpart is discernible in the utilities of our own country.

It is noteworthy that a study of fifteen companies having in the aggregate approximately 70 per cent. of all the gross business done annually by the electric power and light industry in the United States showed for 1938 an average rate of provision for property retirement of 10.8 per cent. of gross revenue as compared with 10.1 per cent. in 1937, or an absolute increase of nearly five million dollars in the face of a decline in gross revenue.

Verification of Inventories It was inevitable that the McKesson and Robbins case as presented in newspaper stories should have evoked a popular demand for immediate drastic action with regard to the verification of inventories of all public companies. It was equally inevitable that the American Institute of Accountants should without delay have named a Special Committee on Auditing Procedure to consider the situation which had arisen and to make recommendations which would lead the popular demand into the most useful channels.

The opinion of the Institute on the duties of the auditor in regard to inventory verification had last been expressed in the pamphlet entitled "Examination of Financial Statements by Independent Public Accountants" which was published in January 1936. The recommendations of the Special Committee on Auditing Procedure are contained in the official pronouncement which was reproduced in the June issue of this magazine. They do not constitute of themselves a revision of the earlier bulletin but the Chairman of the Special Committee charged with the revision of that bulletin participated in all meetings of the Special Committee on Auditing Procedure. It is therefore reasonable to assume that the substance of the recent pronouncement will be embodied in the revised bulletin, and it will be of interest to compare the 1936 edition of the bulletin with this pronouncement.

The 1936 bulletin stated: "The duties and responsibilities of the accountant in the case of quantities, quality and condition of stock vary with the circumstances; but he must rely principally for information as to quantities, quality and condition upon the responsible officers and employees of the company. In the case of a business which does not call for technical knowledge and presents no substantial difficulties, the accountant, by special arrangement with his client, may be justified in assuming a greater degree of responsibility than in cases where expert knowledge is essential. Make reasonable enquiries and tests to ascertain that quantities have been carefully determined and that quality and condition have received due consideration." The bulletin went on to describe twenty-four heads under which an accountant *qua* accountant could usefully make enquiries with a view to forming an opinion of the correctness of the inventory figure. These heads did not include, in explicit form, a test by the auditor of actual physical quantities but they did in the aggregate constitute an exhaustive verification of the type which an accountant is qualified to undertake.

The gist of the pronouncement of the Special Committee on Auditing Procedure is that "wherever practicable and reasonable" corroboration of inventory quantities by physical tests should be accepted as normal audit procedure in the examination of any "concern where inventories are a material factor." If in the opinion of the auditor a physical test of inventory quantities is not practicable or reasonable and so has not been undertaken the auditor is to state so in his report. Failure to do one or the other of these two things is to be regarded as a departure from normal audit procedure and so presumably as a dereliction of duty.

It would be presumptuous to question the expediency of this recommendation as a possible means of averting ill-considered and impractical legislation which would place intolerable burden on industry yet some may doubt the wisdom of the imposition of a "standard practice" by the governing body of a professional association in public pronouncement. There is always the danger that if such a pronouncement succeeds in engendering public confidence it may be paving the way for a still greater shock to that confidence at some future date. It is well known in legal

and accountancy circles that an auditor, as such, does not possess the knowledge of industrial technique requisite to exact identification of any but the simplest products of industry or to detection of deteriorated material or obsolete stock, but it is extremely doubtful whether the lay public appreciates this fact or can be made to appreciate it. The Special Committee goes on to state that "the training and experience of an independent certified public accountant do not qualify him as a general appraiser, valuer, or expert in materials. The public *should understand* (the italics are our own) that, while he can take steps to warrant the expression of his opinion as an accountant that stated quantities of merchandise are actually on hand, such procedure does not invest his opinion with a degree of authority which he does not claim for it" It is to be feared that what the public should understand is a very different thing from what it does understand—and that the process of education may not be furthered by a pronouncement which will perhaps be popularly construed to mean that from now on auditors are going to take stock.

It may be argued that the interests of the public are best served by an auditing profession which, while making use in each particular situation of all the procedures open to a qualified accountant, publicly professes to do no more than form an opinion as to the reliability of the method of stock taking and the technical and moral reliability of those performing the act of stock taking, and to state his opinion on those matters. This places squarely on the shareholders (where it belongs) in the event of the auditor stating either that he has been unable to form an opinion or that he has formed an adverse opinion, the responsibility of deciding whether the company should incur the heavy expense of an inventory check by an independent firm of engineers and valuers.

*The Appointment
of the Company
Auditor*

It is probably of much greater importance that the audit of an incorporated company should be obligatory by statute than that the auditor should be appointed in some particular prescribed manner. In Canada we have long been accustomed in both federal and provincial legislation to the statutory audit and the appointment of the auditor by the shareholders in

annual meeting. In the United States prior to 1933 an independent audit was not obligatory and only the larger corporations secured one. The auditor in those cases was appointed by the directors and presumably responsible to them alone. In 1933 the Securities Act made an independent audit obligatory upon any corporation which proposed to make a public offering of new securities and the Securities Exchange Act of 1934 made an annual audit by a public accountant obligatory upon all companies whose securities were listed upon any stock exchange. There remains some difference of opinion as to the manner in which the auditor might best be appointed.

While in Canada the auditor is formally appointed by the shareholders he is almost invariably nominated by the board of directors and to all practical intents and purposes appointed by them. The important point is however that the auditor so appointed has the definite legal status of an agent of the shareholders, that he reports to the shareholders and that he is answerable only to the shareholders. Many practitioners who have had extensive experience in both countries are not convinced that appointment by the shareholders would work as well in the United States as it does in England, and the Special Committee (of the American Institute) on Auditing Procedure to whose findings we have already referred in another connection suggests that "the independent auditor should be engaged or nominated by the board of directors." The Committee observes that the status of the auditor in relation to the client is of great importance to stockholders and creditors but it does not proceed to proposals for the clarification of that status. There occasionally arise circumstances in which it is of great importance to shareholders and creditors that the auditor when once appointed (whether by the directors or otherwise) should be at law independent of the directors and responsible only to the shareholders.

*The Recreations
of an Accountant*

Some facts may be of great interest and yet possess no discernible value. In this category would come, no doubt, facts as to the predominant recreations of the accounting profession in this country. Unfortunately for our curiosity these facts are not available and we shall therefore have to fall back on speculation until the day

when members, on payment of their annual dues, are required to fill in a questionnaire (and why should not accountants like most other people in the world today have to fill in questionnaires?) giving all kinds of irrelevant and irreverent information concerning their personal qualities and habits.

From the published reports of students' associations we gather that prospective members of the profession revel and excel in tennis, baseball and golf during the summer months and in nothing in particular during the winter months. This is no evidence however of the proclivities of the fully fledged members of the profession on whom the onerous practice of accounting has laid its brand. The reported recreations of these are confined to golf tournaments associated with annual meetings and lending some support to the view that accountants as a group enjoy golf, that one or two play golf and that all the rest play at golf. Doubtless our questionnaire to be of maximum interest would have to provide for segregation into age groups since presumably amongst accountants as other men there will be some degeneration from tennis into golf and so on as the years creep by.

We wonder to what extent accountants indulge in winter games such as skiing, curling and badminton, and what are their favorite hobbies. Of how many serious amateur miniature photographers, color photographers, philatelists, first edition collectors, and cabinet makers can the profession boast? Finally we should like to know something about the reading habits of accountants (outside of blue books, statutes, etc.) How many read a detective story a day; how many read Aristophanes or Virgil in the original before going to bed each night; how many are in the category of the woman whom John Masfield recently mentioned and who remarked one day to a friend, "I heard this quotation: 'Blessed are the pure in heart.' It struck me as being rather beautiful. Can you tell me where I can find it?"

MODERN TAXATION PROBLEMS IN BRITAIN

By F. Bradshaw Makin, London, England

Modern Tendencies

TAXATION at the present time, as a result of the growth of social services, national indebtedness and rearmament, is not the simple matter that it was in the days prior to the great war. The tendency for the state to play a more pronounced part in the general social and economic life of the community has brought in its train increased responsibilities and additional duties. Briefly there has gradually been created an extraordinary need for funds on a scale hitherto unknown, and which must in the long run be met by means of taxation.

The proportion of the national income taken by way of taxation has so increased that everyone is annually giving up a larger part of his income in this form, either directly or indirectly. A reliable estimate places the amount of taxation taken from the annual income for the year 1938 as being within the region of 21 per cent. When it is realized that the corresponding percentage for 1913-14 was only 7.3 per cent. the increase is so marked as to render further comment unnecessary.

Modern systems of taxation are largely the outcome of social and economic development. Dismissing for the moment the cost of the gigantic legacy of indebtedness left by the war, it will be found that the expenses of social reform and economic development, which successive Governments have made a part of their financial policy, have necessitated the raising of additional revenue on a large scale. The quest for supplementary sources of revenue has resulted in the rates of old taxes being raised and new taxes imposed to meet the requirements of the situation as they arose; thus necessity rather than reason has prescribed the manner in which certain parts of the general system have been put into operation.

Taxation and Economic and Social Change

Many thinking people realized long ago that taxation is not only a source of revenue for the state but is an effective instrument for bringing about economic changes. The economic position of individual members of the community

may, and can, be altered not only by the ultimate disposal of the revenue collected but also by the fact of collection. The numerous measures of social reform, education, pensions, housing, health and unemployment insurance, etc. are all in the nature of economic changes affecting the general community. Changes in the economic structure as contrasted with the social structure have also been brought about by means of taxation. All taxes have far reaching economic consequences some of which may not be beneficial to the general welfare of the inhabitants of the state or may actually be in direct opposition to the public interest. New industries have been developed either by means of customs duties or direct subsidies, whilst taxes have also been imposed whose effect has been to curtail a particular form of consumption or discourage certain types of enterprise. One of the most essential features of any tax system is that the influential force contained therein should be directed towards aims that are held to be socially necessary.

The power to use taxation as an instrument for the furtherance of social or economic changes is not always used for the benefit of the community, as will be quite apparent if the history of the subject is studied. Not infrequently it is found that sectional interests gain at the expense of the public, owing to unsound planning or mistakes of policy. The customs tariff is a case in point, for without in any way disparaging the principles of tariffs, it is agreed that there exists a risk of promoting uneconomic development.

In Britain, however, the majority of people who give any thought to the subject are of the opinion that the measures of social reform instituted by means of taxation are beneficial and are to be commended, though there also exists a minority who hold the opposite view. When, however, we come to consider the purely economic changes influenced or carried out by means of taxation, it is found that many conflicting opinions are current. The development of certain industries behind tariff barriers and the subsidizing of others by means of Exchequer payments, is held by some people to be uneconomic and gives rise to much adverse criticism. The object of this article is not to justify or condemn any of the activities mentioned but is merely concerned with drawing attention to the fact that changes of a major or minor nature can be, and are, accomplished by means of taxation.

Taxation and the Condition of Trade

If taxes when properly levied can be instrumental in influencing economic development it follows that any marked change in the volume or direction of taxation can exercise an effect on general trading conditions. Some doubt is felt as to how far the effect on trade is counteracted by other forces and also whether the changes resulting from a variation of the tax policy are of major or minor importance. Nevertheless there exists a body of opinion, and a growing body too, which inclines to the view that the effects of taxation on the present day scale are very imperfectly understood.

The principle of increasing taxation during periods of prosperity and of reducing the impost when trade is declining has found favour in some quarters. One of the main arguments advanced in support of the principle is that industry, and the individual, is in a better position to make tax payments during boom periods, whereas the effect of relatively high taxation during a slump further accentuates the dead weight of depression. It has been suggested that the course of the trade cycle could be smoothed by a change in the existing principles of taxation. If this view is accepted it is to be noted that a yearly balancing of the budget is no longer a possibility as the policy would only call for a balance between income and expenditure over a period covered by the trade cycle.

Whilst most people realize that changes in the level or direction of taxation can, and actually do, have a marked effect on business conditions, they also appreciate the fact that very important alterations in the complete structure of the taxing system would be necessary before even a partial control of the trading situation could be maintained. The problems that would arise would be by their very nature difficult to solve and would embrace the questions of investment in capital goods, the production level of "consumables," the regulation of government and local authority borrowings and a host of other important matters.

That a large field of investigation is open cannot be denied but a vast amount of research and consideration is necessary before any attempt is made to put into operation a policy having as one of its objectives, the alleviation of the trade cycle and its effect on general conditions.

The Increase in Taxation

In the spacious days of the pre-war era, when income tax was a mere six cents in the dollar ($1/2$ in the £.) and the total budgetary revenue of Britain was the now seemingly small sum of \$990 millions per year, very few persons concerned themselves with the principles or consequences of taxation. In the present year when income tax is twenty-seven cents to the dollar ($5/6$ in the £.) and the Budget estimates for 1939-40 provide for an expenditure in excess of \$5,000 millions the number of people not only interested in but personally affected by taxation has increased enormously. The basis of taxation has been so broadened that almost every individual is concerned in some measure.

The chief factors responsible for the great increase in taxation since 1913-14 are three in number, namely, the increased annual cost of the national debt, the provision of increased social services, and to a lesser degree the cost of maintaining the defence services. The net total of the national debt at 31st March 1914 was some \$3,250 millions, whereas on 31st March 1938 the figure was the stupendous sum of \$40,720 millions, an increase of over 1,150 per cent.

In the table given below the cost of the national debt, the civil services and the defence services in 1913-14 and 1939-40 are shown, together with the percentage increases.

	1913-14 in millions of dollars	1939-40 in millions of dollars	Per cent. increase
National debt	120	1,150	858
Civil services	290	2,255	677
Defence services	385	1,100	186
	<hr/> 795	<hr/> 4,505	<hr/> 466

It should be noted that the actual expenditure on defence is greater than shown in the table owing to considerable sums being raised by loans. Almost the first thought which comes to mind when considering the above figures is "How has the average individual been affected by the huge increase in taxes?" Before attempting to deal with the position of the individual it is first necessary to consider somewhat briefly the modern tax theories.

Present Day Taxation Principles

That great economist, Adam Smith, propounded four

principles or canons of taxation which have stood the test of time remarkably well. The four canons are:

1. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.
2. The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.
3. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

The canons laid down by Adam Smith may be summarized by saying that taxation should be equal, certain, convenient and economical. A considerable amount of controversy often takes place regarding the canons, though this generally relates to the first, spoken of as the equalty canon. It was suggested that as persons should "contribute in proportion to the revenue they enjoy" the contribution should involve a proportionate sacrifice, that is, a person enjoying an income of 5,000 dollars per annum should contribute double the amount of a person with an income of 2,500 dollars per annum, and so on in strict proportion. A further suggestion spoken of as the "faculty" theory is to the effect that the contribution should be based on the contributory power of the individual, that is, a higher rate of contribution should be exacted from the more wealthy members of the country. The "faculty" theory has been largely superseded by the "progressive" theory which is based on the principle of diminishing utility, and suggests that each increase in income gives to the recipient a diminished satisfaction or enjoyment. The main argument in favour of the progressive theory is "that the sacrifice is greatest when the income is smallest." It is contended that a payment of, say, fifteen dollars per annum by a person in receipt of 750

dollars, is a much greater sacrifice than a payment of sixty dollars by a person in receipt of 3,000 dollars. A person in receipt of a small income has little, if any margin, and to tax this person unduly causes a curtailing of the essential expenditure necessary to maintain health and efficiency; whereas in the case of a larger income, no necessary expenditure is curtailed even when the tax levied is at a higher rate. The progressive theory is now very widely held and is applied in the case of income tax and death duties. The main objections to the theory are that whilst it does undoubtedly lessen the inequalities between the incomes of individuals, there exists a grave danger if the progression is carried to extremes. The graduation in the rate may become so steep that the meeting of large tax payments will be every whit as difficult to the wealthy person, as the smaller payment is to the less affluent. The unlimited taxation of high incomes places a brake upon initiative and enterprise, in addition to exercising a harmful effect on savings.

Direct and Indirect Taxation

Modern methods of taxation differ between one country and another as is evidenced by the special stress placed upon income tax in Britain, as contrasted with business taxes in France, and property taxes in the United States of America. The newer countries generally favour a system based upon custom duties as this particular form of taxation allows such countries to develop infant industries, and moreover the volume of imports upon which duties may be levied is usually substantial. It will generally be found that countries in the process of development, or primary product countries, tend to obtain a greater proportion of their revenue by means of indirect taxation. The term indirect taxation is one capable of varying definitions, but it is felt that the generally accepted version is that indirect taxes are those which are not collected directly from the person who must ultimately pay them. Indirect taxes are levied on commodities or services, and form, from the point of view of the consumer, an indistinguishable part of the purchase price. Though in the majority of cases the purchaser of a commodity subject to indirect taxation can, if he so desires, discover the amount of the tax in the actual price paid, few people make the necessary enquiries, and many do not even realize when purchasing a particular com-

modity that any contribution to the state revenue is being made.

A direct tax, however, is levied directly on the income, interest, profit or capital of the individual, who therefore becomes fully conscious of his liability and his taxation contribution. Considerable controversy ranges around the relative merits of direct and indirect taxes, the main arguments for and against being so well known that little purpose is served by their recapitulation. In Britain direct taxation increased rapidly at the expense of indirect during the period 1913-14 to 1929-30. The departure from Free Trade and the imposition of additional customs duties during 1932 and onwards caused a slight reversal of the general trend as will be observed from the tables shown below:

Direct and Indirect Taxation

	<i>Direct</i>	<i>Indirect</i>
1913-14	47.8%	52.2%
1929-30	55.6%	44.4%
1933-34	52.1%	47.9%
1935-36	51.3%	48.7%
1937-38	53.2%	46.8%
1938-39	55.6%	44.4%

Whilst dealing with the subject of direct and indirect taxes some mention may be made of the taxation which in theory is levied for a particular service, and is only payable by persons availing themselves of that service. The main items of taxation levied for particular services are motor vehicle duties, wireless licences, postal charges and insurance contributions. The motor vehicle duties are payable by the owners of automobiles with the object of obtaining a contribution from the motoring section of the population towards the cost of road maintenance and building. Theoretically the contributions should be received and used by the road fund, and any surplus over requirements should be utilized in the reduction of motor vehicle duties and not appropriated by the general exchequer. The road fund surpluses have been transferred to general revenue, and numerous outcries have been heard regarding the "raiding" of the road fund. To a similar degree the same remarks apply to the charges made for postal services. This service shows an annual profit which is always taken into the general budget as net revenue. There are people who contend

that the net surplus of the postal services should be utilized in the granting of reductions in charges and should not be appropriated to general revenue. Theoretically, and on the grounds of financial purity, there is a strong case in favour of a reduction in charges, but it must not be overlooked that should the surplus be so used, then additional taxation must be imposed to make good the resulting deficiency on general revenue account.

It is no doubt quite an impossibility to carry to extremes the doctrine of special taxation for special services, for this would necessitate the splitting up of the national revenue and expenditure into a number of watertight compartments, and implies a rigidity of income and expenditure not found in practice. Furthermore, such a system connotes taxation based on benefits received. As everyone realizes, taxation is based principally on ability to pay and the benefits derived therefrom are distributed, not according to contribution, but according to social necessity. Many benefits from taxation are of a communal nature resultant upon collective purchases. Without doubt, our modern taxation has the result of enabling collective purchase to be made of various benefits or services which the great majority of the community could not obtain individually. In brief, those members of the community whose position enables them so to do, pay, by means of taxation, a more than proportionate share towards the cost of operating or providing the services which are for the common good and which are enjoyed by all.

The wealthy man may send his children away to a private school and pay for the whole of their education out of his own pocket, nevertheless, by his taxation payments, he bears some part of the cost of educating the children of less fortunate individuals.

The Individual Liability

It is impossible to state how the average person has been affected by tax increases unless one has an intimate knowledge of his income, general expenditure and mode of life. It is however fairly simple to illustrate the effect on the individual of the additional tax burden caused through increases in income tax and surtax, as will be noted from the examples shown below.

MODERN TAXATION PROBLEMS IN BRITAIN

A—Single Man.....Earned Income, 2,500 dollars per annum

	<i>Rate of tax</i>	<i>Total tax payable after all allowances</i>
1913-14	6 cents per dollar	65.60 dollars
1939-40	27 cents per dollar	283.10 dollars—Increase 300%

B—Single Man.....Unearned Income, 50,000 dollars per annum

	<i>Rate of tax</i>	<i>Total tax payable after all allowances</i>
1913-14	6 cents per dollar	2916.10 dollars
	Surtax 2½ cents per dollar	875
		<hr/> 3791.10 dollars
1939-40	27 cents per dollar	13483 dollars
	Surtax graduated to 25 cents per dollar	8067 dollars
		<hr/> 21550 dollars—Increase 467%

The increased contribution is so marked that further comment is superfluous save to draw attention to the fact that the increased percentage in the case of the 50,000 dollar man is in accordance with the "progressive" theory.

When the Englishman feels "fed up" with politics and seeks an evening's entertainment, he takes out his taxed automobile, fills up with taxed gasoline and drives to the theatre. The price he pays for his seat includes a proportion for tax, and if during the interval he visits the bar and consumes a whiskey a still greater tax payment is made. Finally he smokes a taxed cigarette prior to retiring and in running over the events of the evening in his mind he quite overlooks that he has contributed quite an appreciable sum to his country's exchequer.

FINANCIAL ADMINISTRATION AND A SYSTEM OF ACCOUNTING FOR MUNICIPALITIES

Editor's Note: The following report on the Financial Administration and a System of Accounting for Municipalities in the Province of New Brunswick was prepared by the New Brunswick Institute of Chartered Accountants at the request of the Department of Education, Federal and Municipal Relations of that Province. Part I of the report appeared in the July issue, and Part II in this issue concludes the report.

Part II

TO SUPPLEMENT the Report on the Financial Administration of Municipalities in New Brunswick this outline of a system of accounting is submitted.

In submitting this report it has been assumed that the officials of your Department are thoroughly familiar with accounting practice, and the report therefore does not go into elaborate detail.

The committee of the Institute appointed to study this matter have endeavoured to outline in a general way a system which may be followed by Provincial municipalities, subject to differences in detail necessitated by variation in size. In order to secure the benefits of uniformity all municipalities in the Province should adopt the same system.

The suggested system is outlined under the following main divisions:

Main Books of Account.

Subsidiary Ledgers.

Supplementary Records.

Chart of General Ledger Accounts (See also Schedule A).

Assessing and Billing.

Valuation of Assets and Depreciation.

Accounting Unit.

General.

Main Books of Account

MINUTE BOOK

In this book should be recorded the executive decisions of the council or board governing the municipality. All decisions affecting the finances of a municipality should be recorded therein and no payments should be made without

first being authorized by a resolution of the council or board. The payment of routine salaries and bills should be authorized in advance and confirmed at the first meeting of the council or board following their receipt.

GENERAL LEDGER

This is the chief book of a complete system of accounting in which all financial transactions are eventually recorded, either in detail or in summarized form. From the accounts in this book the Balance Sheets and Revenue and Expenditure accounts are prepared.

It is suggested that the General Ledger be divided into two sections:

1. Capital and Trust Funds (including capital and trust fund assets, liabilities income and expenditure).
2. General Fund (including general fund assets, liabilities, revenue and expenditure).

Each section of the General Ledger should balance within itself.

CASH RECEIPTS BOOK

In this book should be recorded all cash received, from whatever source, and the deposit of the total received into the proper bank account. It is imperative that the total cash receipts of a municipality be deposited intact in its bank accounts. The book should provide columns for the classification of receipts, e.g., taxes, current and arrears; water rates, current and arrears; sewer rates, etc., etc. This will facilitate the accumulation of total monthly receipts by classifications and thus reduce the postings to the General Ledger.

In certain large municipalities it may be found convenient to have a separate cash receipt book for capital and trust funds.

CHEQUE REGISTER

All payments should be made by cheque and should be recorded in the cheque register. The making of cash payments out of moneys received should be absolutely prohibited. The cheque register of those municipalities which do not use a voucher register should provide columns for the classification of disbursements by departments or services.

If a municipality finds it convenient to make small payments in cash, such payments should be made out of a petty cash fund established for the purpose. (See below.)

VOUCHER REGISTER

The cheque register suggested in the preceding subsection provides for the classification of disbursements in the cash book. Under this method the liability is not recorded in the books until the bill is paid, except at the end of the year, when the accounts payable are brought into account.

In the case of the larger municipalities this weakness could be overcome by the use of a voucher register. All bills, as soon as they have been approved by the officials concerned, would be entered in the voucher register, which would provide columns for the classification of expenditures. The corresponding credit would be to "Vouchers Payable," a controlling account in the General Ledger (No. 409).

If a voucher register is used the distribution of expenditures would be made therein, rather than in the cheque register, and the cheque register would provide columns for charges to "Vouchers Payable" and miscellaneous accounts only.

GENERAL JOURNAL

The journal should be used for making those entries and adjustments between accounts which do not involve cash. Each journal entry should be numbered and signed by the proper official. Entries in the journal should be supported by detailed statements, where required.

PETTY CASH BOOK

A simple columnar book or books should be provided for recording the disbursements from any Petty Cash Fund or Funds that may be established. These funds should be operated on the imprest system and the cheques issued to reimburse the funds for payments made should be charged through the cheque or voucher register to the proper expenditure accounts.

The receipts for petty disbursements should be filed in envelopes by months, so as to facilitate audit.

Subsidiary Ledgers

Subsidiary Ledgers are designed to record the details of certain assets and liabilities which, if recorded in the

General Ledger, would make that book too cumbersome. A brief description of the subsidiary ledgers more commonly used is given below. Other subsidiary ledgers may be required by certain municipalities; for example a ledger to give in detail the assets of the Water System, Fire Department, etc.

If convenient two or more subsidiary ledgers may be kept in one loose leaf binder or, if the accounts concerned are not numerous, they may be filed in the General Ledger, either at the back or immediately following their controlling account. In the latter case it would be advisable for the subsidiary ledger sheets to be of a different colour from the regular general ledger sheets.

RATEPAYERS' OR TAXPAYERS' LEDGER

The proper and careful control of delinquent rates or taxes is a necessity in the management of a municipality. To ensure this control the rates or taxes receivable should be entered from the assessment roll into the individual ratepayers' accounts in this ledger and the receipts posted thereto from the most convenient medium (collectors' returns, copies of receipts, etc.). The total of outstanding balances by years should be controlled by accounts in the General Ledger.

Many municipalities use the assessment roll as a ledger, posting the receipts on account of taxes thereto. This procedure is not recommended and should be discontinued with the possible exception of posting to the current year's tax roll up to the end of the discount period. A strict control of such current taxes receivable should be maintained in the same way as for taxes transferred to tax receivable ledgers.

WATER AND SEWER RATES RECEIVABLE LEDGERS

The comments and suggestions made in the preceding section apply equally to these ledgers.

A record on the ledger sheet of the basis of the rate (number of water outlets, etc.) would be of value in those cases where water is supplied at a flat rate.

DEBENTURE REGISTER

When the number of issues of debentures are more numerous than can be conveniently recorded in the Gen-

eral Ledger a subsidiary ledger should be kept in which should appear an account for each issue giving all particulars, such as legislative authority, date of council or board resolutions referring to it, purpose, amount, date of issue and maturity, rate of interest, to whom sold, price obtained, sinking fund requirements, and so on. The numbers and denominations of the debentures would also be recorded.

COUPON REGISTER

A separate coupon bank account should be kept for the payment of coupons. To this account should be deposited on each interest date the total of the coupons maturing on that date.

A record should be kept of all coupons paid. A satisfactory method in use by certain municipalities is the following:

For every bond issued sheets are prepared providing space for the coupons attached to the bond. As the coupons are paid and received from the bank they are pasted to the sheets in the correct position. At any time, therefore, these sheets show the coupons paid, and the coupons due but not paid; if the total amount of coupons maturing is deposited in the bank coupon account on the interest dates the total of coupons due but unpaid must agree with the balance shown in the coupon bank account.

INVESTMENT LEDGER

In this ledger should be recorded the investments of the various sinking and trust funds. A separate section of the ledger should be allotted to each fund, and a separate account kept with each investment of that fund.

HOUSING ACT (1919) MORTGAGES RECEIVABLE

In this ledger should be recorded the mortgages receivable. The total of balances in this ledger would be controlled by account No. 162 in the General Ledger.

SUBSIDIARY EXPENSE LEDGER

Larger municipalities may find it more convenient to record the detailed classification of the expenditures of certain of their departments or services in a subsidiary expense ledger, controlled by one account for such services in the General Ledger.

Supplementary Records

COLLECTORS' RETURNS

In certain municipalities collectors remit to the treasurer the amounts collected, accompanied by a return showing the amounts collected from individual ratepayers. These returns should be filed in a special binder, the returns from each collector being filed together.

These returns should be checked and the total of the remittance entered in the Cash Receipts Book. The summary of the collectors' returns will give the distribution as between current rates, arrears, etc.

The amounts collected from individual ratepayers as shown on the collectors' returns should be posted to the ratepayers' ledgers.

For the control and supervision of collectors a summarized record would be of value. This record should show the total amount of rates (current and arrears) given to them for collection and their collections by months. The comparative figures for the same territory for the previous year could also be shown. A general comparative statement of the amounts collected by the several collectors has been found in at least one municipality to stimulate collectors to put forth their best efforts.

PAYMENT ORDERS

When an account has been finally approved and passed for payment by the council or board the secretary of the board should attach thereto an order to the treasurer to pay the account.

The treasurer should then issue a cheque and record it in the cheque register, giving the order, with the account, etc. attached, the same number as the cheque.

Payment orders with vouchers attached should then be filed in numerical order.

RECEIPT BOOKS

Official receipt books should be supplied to all collectors and should also be used in the treasurer's office. The receipts should be in triplicate, the original to be given to the ratepayer, the duplicate to be forwarded by the collector with his return and the third copy (not perforated) to remain in the receipt book.

The receipts should be numbered, and all receipts accounted for. A record should, of course, be kept of the books issued to each collector.

After all receipts in a book have been used the collector should return the used book to the treasurer for a final check against his returns.

ESTIMATES

The assessment warrant, as finally authorized, should be supported by a detailed estimate of the revenue and expenditure for the year for each department or division as passed by the council or board.

Chart of General Ledger Accounts

The purpose of having a standardized chart of accounts for all municipalities within the province is to facilitate comparison between municipalities, to enable municipalities to prepare statements on a uniform basis in accordance with sound accounting principles and to assist those in authority both within the municipalities and in the Provincial Government in the supervision and management of the municipalities' affairs.

If this object is to be achieved it is essential that the classification of accounts be strictly followed and that items of a dissimilar nature be not grouped together.

A chart of accounts is submitted (Schedule A) setting out most of the general ledger accounts that will be met with in municipal accounting within New Brunswick. No difficulty should be experienced in numbering any additional accounts which may be required. For example, a second bank account for a specific capital purpose, if required, would be numbered 102 or 101-1.

Certain accounts have been designated as control accounts. For example, the mortgages receivable under the Housing Act would normally be kept in a subsidiary ledger. The sum of the balances in the accounts of such a subsidiary ledger would be controlled by the corresponding General Ledger account.

In the smaller municipalities the number of mortgages, accounts receivable or investments may not necessitate the keeping of a subsidiary ledger and the necessary accounts may be kept in the General Ledger. For example, a municipality having two trust funds each having two lots of

securities could keep all the necessary accounts in the General Ledger, numbered as follows:

- 181 Trust Fund No. 1—Cash in Bank.
- 182 Trust Fund No. 1—Security A.
- 182-1 Trust Fund No. 1—Security B.
- 183 Trust Fund No. 1—Income.
- 184 Trust Fund No. 2—Cash in Bank.
- 185-1 Trust Fund No. 2—Security C.
- 185-2 Trust Fund No. 2—Security D.
- 186 Trust Fund No. 2—Income.

The sum of accounts 221-250 would control the Debenture Register.

General Ledger Account No. 271, "Reserve for Redemption of Debentures," has been designed as a control account, controlling the reserve accounts for the individual issues. A municipality having only a few issues outstanding could carry the individual reserve accounts in the general ledger in place of the control account.

Provision has been made on the chart of accounts for one trust fund. If a municipality had several trust funds they would be numbered 282 and 282-1, 283 and 283-1, and so on.

Account No. 403, "Coupons Payable," would not be required if the system outlined above under "Coupon Register" is followed.

The classification of expenditures has been drawn up more particularly for counties, cities, towns and villages. School boards would only be concerned with sections ten, eighty and ninety and would no doubt desire a breakdown of expenditures on schools between the various schools under their jurisdiction, classified by kinds of expenditure. A special chart of accounts for school boards could be readily prepared.

Assessing and Billing

Certain recommendations were made in the Institute's Report on the Financial Administration of Municipalities respecting the preparation of assessment rolls. The system of accounting for the taxes or rates receivable outlined below is designed to fit in with these recommendations.

The warrant or estimates as passed by the council and approved by the Department of Education, Federal and

Municipal Relations should be delivered to the Assessor as his authority for preparing the assessment roll.

The Assessor then should fix the rate and complete the assessment roll, based on the valuations previously determined by him.

The assessment roll, showing the grand total assessed against the ratepayers of the municipality and also the total assessed in respect of poll tax, real estate, personal property, income, etc., should then be delivered to the treasurer of the municipality.

The treasurer should be responsible for the preparation of the tax bills, the total of which must equal the total of the assessment roll.

The total assessment, according to the roll, should then be set up in the accounts as a charge to "Taxes Receivable—Current Year," the corresponding credit being made to Revenue from Taxes (Accounts Nos. 501-502).

Responsibility for amount of the assessment clearly rests with the assessor, and he should authorize, in writing, any change in the amount of an assessment that may be necessary due to an error in calculation, amendment in valuation, etc. The most convenient method would be for the assessor to sign a journal voucher authorizing the change, or to sign the journal entry itself.

Valuation of Assets and Depreciation

The valuation at which fixed assets should be recorded on the books of a municipality is a subject on which volumes have been written and wide differences of opinion are held. While not maintaining for a moment that the outline given below is the only correct method for dealing with them, the Institute considers that it is a simple and conservative method, and suitable for adoption by municipalities within this Province.

ASSETS ACQUIRED WITH THE PROCEEDS OF BOND ISSUES

Serial Bonds—As each instalment falls due and is paid out of the General Fund, the Asset Account should be credited and the debt outstanding charged with a like amount.

Sinking Fund Bonds—The sinking fund reserve may be considered as in lieu of depreciation and, when the bonds

mature and are paid off, the amount at credit of the sinking fund reserve should be used to write down the asset.

It may happen that an asset has been written off, but is, in fact, still subsisting and in active use. In such a case it is suggested that it be recorded on the books at a nominal value (say, \$1.00), a corresponding credit being made to Capital Surplus.

If, before the maturity of the sinking fund bonds issued therefor, an asset is lost or becomes of no value, the amount at which it stands on the books should be transferred to Capital Losses, and should subsequently be written off from the sinking fund reserve when the bonds finally mature and are paid.

The procedure outlined above is comparatively simple in the case of a large building, such as a town hall or fire station, but presents more difficulty when dealing with streets and sidewalks.

The subdivision of the expenditure on streets between paved and unpaved streets could not, in some cases, be made from the information available in the accounts of the municipality. It is suggested that in these cases the division be made on the estimate of the municipality's engineer or of some properly qualified official having the necessary knowledge and experience.

When a street is paved for the first time an amount representing its book value should be transferred from unpaved streets to paved streets. Here again it may be necessary to rely on an engineer's estimate.

When bonds issued for unpaved streets mature and are paid off, and the sinking fund reserve becomes available for writing down the book value of streets, reliance must be placed on an engineer's estimate to determine what proportion of the reserve should be applied to writing down the book value of paved streets.

ASSETS ACQUIRED OUT OF THE GENERAL FUND

Assets acquired out of the General Fund (usually by assessing therefor) should be recorded in the General Ledger (Capital Fund section) at cost, the corresponding credit being to "Deferred Credit—General Fund." In the General Fund the disbursement should be charged to "Deferred Charges—Capital Expenditure." As the amount is assessed

for, the Deferred Charge should be written off to revenue and a corresponding entry made in the Capital Fund Schedule of the General Ledger. When the expenditure has been fully assessed for and charged off to revenue, the asset will have been completely written off in the Capital Fund section of the General Ledger. If the asset is still of value it should be set up at nominal value, the corresponding credit being made to Capital Surplus.

Accounting Unit

It has been the practice in the past to charge all expenditures to individual parishes if they are of a nature that can be definitely allocated. This includes expenditures for social services, including support of the poor and education.

Serious consideration should be given to spreading all expenditures of the County, including the services now allocated to the individual parishes, over the county as a whole. This would involve a common tax rate for the whole County and, for the assessment to be fair, the valuation for all properties within the County must be on a uniform basis.

Under this change, if adopted, the expenditures for social services, including education, would be spread over a wider unit, the County, and the heavy burden that certain parishes now bear would be relieved. Moreover, the councillors would have a more vital interest in the administration of the County as a whole, rather than, as at present, being primarily interested in their individual parishes.

General

In preparing this outline of accounting procedure for New Brunswick municipalities it was realized that no detailed system could be devised which would fit the needs of all municipalities, ranging in size from the City of Saint John to the smallest school district. The system outlined is, in our opinion, simple and straightforward, and is capable of adaptation to municipalities of varying size. Where no principle of accounting is concerned alternative suggestions have been offered.

The Institute appreciate very much the opportunity afforded them of submitting this report, and hope that the suggestions made herein will be of value in improving the general standard of accounting in the municipalities of the Province.

MUNICIPAL ADMINISTRATION AND ACCOUNTING

SCHEDULE A

CHART OF GENERAL LEDGER ACCOUNTS

Capital and Trust Fund Assets

CURRENT ASSETS

- 101 Cash in Bank.
- 105 Due to or from Current Fund.
- 106 Due to or from Province of New Brunswick.
- 106.1 Due to or from Dominion of Canada.
- 108 Accounts Receivable—Miscellaneous (Control).

EQUIPMENT

- 111 Administration—Furniture and Fixtures.
- 112 Police Equipment.
- 113 Fire Apparatus and Equipment.
- 114 Ferry Equipment.
- 115 Airport Equipment.
- 116 Public Works Equipment.
- 116.1 Public Works Tractors, Trucks, etc.
- 118 School Equipment.
- 119 Miscellaneous Equipment.

FIXED ASSETS

- 121 Administrative Buildings.
- 122 Gaol Building.
- 123 Fire Station Buildings.
- 123.1 Fire Alarm System.
- 123.2 Hydrants.
- 124 Street Lighting System.
- 125 Police Signal and Traffic System.
- 126 Electric Power Plant and Distribution System.
- 127 Water System (Filtration and Pumping Plant and Distribution System).
- 128 Ferry System (Ferry, Wharves, etc.).
- 129 Public Markets.
- 130 Airport (Land and Buildings).
- 131 Streets—Paved.
- 131.1 Streets—Unpaved.
- 132 Sidewalks—Paved.
- 132.1 Sidewalks—Unpaved.
- 133 Sewerage System.
- 134 Cemeteries.
- 135 Hospitals.
- 136 Parks, Squares and Playgrounds.
- 136.1 Rinks, Stadiums or Arenas.
- 136.2 Public Halls.
- 137 Municipal Homes.
- 140 Lands—Vacant (Acquired for future use).
- 141 Other Properties.
- 145 Schools.
- 146 Libraries.
- 148 Capital Construction—In Progress.
- 149 Development Costs—In Progress.

RELIEF AND DEFICITS

- 151 Relief Costs—Bonded.
- 155 Operating Deficits—Bonded.
- 156 Capital Losses—Bonded.

THE CANADIAN CHARTERED ACCOUNTANT

HOUSING ACT (1919)

- 161 Cash in Bank.
- 162 Mortgages Receivable (Control).
- 163 Properties acquired (instalments defaulted, etc.).
- 165 Interest Due and Accrued on Mortgages Receivable.

SINKING FUNDS

- 171 Cash in Bank.
- 172 Investments (Control).
- 173 Other Assets.

TRUST FUNDS

- 181 Cash in Bank.
- 182 Investments (Control).
- 183 Other Assets.

Capital and Trust Fund Liabilities

CURRENT LIABILITIES

- 201 Bank Loans.
- 206 Loans from Provincial Government.
- 208 Accounts Payable (Control).

MORTGAGES PAYABLE

- 211-220 Classified by purposes on basis of capital assets pledged.

DEBENTURES OUTSTANDING

- 221-250 Classified by purposes on basis of capital assets acquired (Control).

RESERVES AND SURPLUS

- 251 Reserves for Depreciation of Capital Assets (exclusive of those acquired through bond issues for which sinking funds are being provided or through the issue of serial bonds).
- 255 Reserves for other purposes (specify).
- 257 Capital Surplus.

HOUSING ACT (1919)

- 262 Loans Payable—Province of New Brunswick.
- 265 Interest Due and Accrued on Loans Payable.

SINKING FUNDS

- 271 Reserve for redemption of Debentures (Control) (considered as equivalent to a reserve for depreciation on capital assets acquired out of the proceeds of bond issue).
- 273 Sinking Fund Income.

TRUST FUNDS

- 281 Fund Account.
- 281.1 Fund Income Account.

General Fund Assets

- 301 Cash in Bank.
- 302 Petty Cash Fund.
- 304 Investments.
- 305 Due to or from Capital Fund.
- 306 Due to or from Province of New Brunswick.
- 306.1 Due to or from Dominion of Canada.
- 308 Accounts Receivable—Miscellaneous.

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- 311 Taxes or Rates Receivable (Control)—Current Year.
- 311.1 Taxes or Rates Receivable (Control)—Prior Years.
- 316 Water Rates Receivable (Control).
- 321 Light and Power Rates Receivable (Control).
- 326 Sewer Rates Receivable (Control).
- 331 Sundry Assessments Receivable (Control).
- 333 Frontage Taxes Receivable.
- 336 Seed Grain Accounts Receivable (Control).
- 341 Inventories—Small Tools, Supplies, Etc.
- 351 Properties acquired for Taxes.
- 352 Accrued Items.
- 353 Prepaid Charges.
- 355 Bond Discounts—Unamortized.
- 356 Deferred Charges—Other.

General Fund Liabilities

- 401 Bank Loans.
- 402 Loans, other than from Banks.
- 403 Notes Payable.
- 405 Coupons Payable.
- 406 Accrued Interest on Debentures Outstanding.
- 409 Accounts or Vouchers Payable.
- 410 Due to School Boards—School Draft.
- 411 Due to School Boards—Telephone Tax.
- 431 Reserve for Uncollectable Taxes or Rates.
- 432 Reserve for Uncollectable Water Rates.
- 433 Other Reserves (Specify—e.g. Sewer Rates, Light and Power Rates, etc.).
- 445 Income and Expenditure.
- 451 Operating Surplus.

Revenue

For Smaller Municipalities

- 501 Taxes.

Subdivided for Larger Municipalities

- 501-1 Taxes—Real Property.
- 501-2 —Personal Property.
- 501-3 —Income.
- 501-4 —Winter Roads.
- 501-5 —Frontage (Gen'l).

Note: Frontage or other taxes on proprietors re local improvements should be credited direct to account No. 327.

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|---|--|
| <ul style="list-style-type: none"> 502 Poll Taxes. 503 Penalties and Interest on Taxes. 505 Dog Taxes (Licences). 506 Licences. | <ul style="list-style-type: none"> 502 Poll Taxes. 503-1 Penalties and Interest on Current Taxes. 503-2 Penalties and Interest on Tax Arrears. 505 Dog Taxes (Licences). 506-1 Licences—Restaurants. 506-2 —Vehicles. 506-5 —Plumbers. 506-6 —Electricians. 506-7 —Pedlars. |
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THE CANADIAN CHARTERED ACCOUNTANT

507	Fees and Permits.	507-1	Building Permits.
		507-2	Plumbing Permits.
		507-3	Inspections, etc.
509	Rents and Concessions.	509-1	Rents—Publicly owned buildings.
		509-2	—Market space.
		509-3	—Other (Specify).
510	Franchises (Specify).	510	Franchises (Specify).
511	Fines.	511	Fines.
513	Investment Earnings.	513-1	Interest on Investments.
		513-2	Other Interest.
		513-5	Interest re Advances.
515	Service Charges.	515-1	Sewer Rates.
		515-2	Garbage Collection.
		515-3	Audit Fees received from Boards and Commissions.
		515-4	Charges for services by Municipal Departments (Net).
519	Grants.	519-1	County Grants.
		519-2	Provincial Grants.
		519-3	Dominion Grants.
		519-4	Other Grants.
521	Other Revenues (Specify).	521	Other Revenues (Specify).
527	Over Warrant.	527	Over warrant.

Public Utilities

Electric Light and Power Revenue

531	Light revenue.
532	Power revenue.
533	Service charges.
534	Charges to other departments.
535	Other revenue (Specify).

Water Revenue

541	Water revenue—meter.
542	Water revenue—flat rate.
543	Service charge.
544	Charges to other departments.
545	Other revenue (Specify).

Ferry Revenue

551	Fares—passenger.
552	—cars.
553	—trucks.
554	—teams, livestock.
555	Other revenue (Specify).

Airport Revenue

561	Dues, rentals, etc. (Specify).
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Note: Re public utilities—If the accounting for a public utility were handled by the Board or Commission operating such utility the detailed revenue and expenditure accounts would be kept by that unit, and the only account in the municipality's general ledger would be the corresponding revenue account recording the net revenue for the year.

MUNICIPAL ADMINISTRATION AND ACCOUNTING

Expenditure

Division of Expenditures Under Departments and Services

10	ADMINISTRATION	60	RECREATION.
11	Legislative.	61	Parks.
12	Executive and General.	62	Playgrounds.
13	Administration and Ac-	63	Rinks.
	counting.	64	Stadium.
14	Assessing.	65	Community Hall.
20	PUBLIC PROTECTION		
21	Administration of Justice.	70	POOR RELIEF
22	Fire.	71	Homes.
23	Hydrants.	72	Alms.
24	Street Lighting.	73	Donations.
25	Traffic Control.	74	Child Welfare.
30	PUBLIC UTILITIES	78	Direct Relief.
31	Light Department.	80	EDUCATION
32	Water Department.	81	Schools.
33	Ferries.	82	Libraries.
34	Market.	83	Other.
35	Airport.		
40	PUBLIC WORKS		
41	Streets and Sidewalks.	90	PUBLIC DEBT
42	Winter Roads (Counties).	91	Service of Public Debt.
50	PUBLIC HEALTH AND SANITATION		
51	Board of Health (including Nursing Service, etc.)		
52	Sewers.		
53	Street Cleaning and Sprinkling.		
54	Garbage Collection.		
56	Hospitals, Asylums and Sanatoria.		
57	Cemeteries.		

Classification of Expenditures Within the Department or Service

<i>For Smaller Municipalities</i>	<i>Subdivided for Larger Municipalities</i>
601 Salaries and Wages.	601-1 Salaries of Permanent Officials.
	601-2 Salaries of Temporary Help.
	601-3 Wages of Permanent Employees.
	601-4 Wages of Temporary Employees.
602 Supplies.	602-1 Stationery.
	602-2 Fuel.
	602-3 Stable Feed.
	602-4 Gasoline.
	602-5 Clothing and Uniforms.
	602-6 Foods.
	602-7 Medical Supplies.
	602-8 Chemicals.
	602-9 Books and Magazines.
	602-10 Fire Hose.

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603	Materials.	603-1	Lumber and Timber.
		603-2	Road Materials.
		603-3	Steel Products.
		603-4	Paints, etc.
		603-5	Cement.
		603-6	Waterworks Service Materials.
		603-7	Sewer Service Materials.
611	Rentals paid.	611	Rentals paid.
612	Light, heat, power and water.	612-1	Street Lighting.
		612-2	Interior Lighting.
		612-3	Heating.
		612-4	Power.
		612-5	Water.
613	Postage, Telephone, etc.	613-1	Postage (including excise stamps).
		613-2	Telephones.
614	Transportation (car allowance, etc.)	614	Transportation (car allowance, etc.)
615	Insurance.	615-1	Insurance—Fire.
		615-2	—Indemnity.
		615-3	—Guarantee Bonds.
		615-4	Workmen's Compensation.
616	Printing and Advertising.	616-1	Advertising.
		616-2	Voters' Lists.
		616-3	Auditors' Reports, etc.
		616-4	Blue printing.
		616-5	Typewriting and duplicating.
		616-6	Other printing.
617	Taxes paid.	617	Taxes paid.
618	Audits and consultation of Experts.	618	Audits and consultation Experts.
619	Legal Expenses.	619-1	Solicitors.
		619-2	Law Costs.
		619-3	Jury Fees.
		619-4	Witness Fees.
621	Repairs—Buildings and Equipment.	621-1	Repairs—Buildings.
		621-2	—Equipment.
622	Repairs and Improvements.	622-1	Repairs and Improvements.
			—Streets or Roads.
		622-2	—Bridges and Culverts.
		622-3	—Parks.
		622-4	—General.
623	Traffic signals.	623	Traffic signals.

(Continued on page 115)

MUNICIPAL ADMINISTRATION AND ACCOUNTING

631	Hospital charges.	631-1	Hospital charges—Mental.
		631-2	—Tuberculosis.
		631-3	—Other.
632	Nursing.	632	Nursing.
635	Direct Relief.	635-1	Direct Relief—Food.
		635-2	—Shelter.
		635-3	—Fuel.
		635-4	—Clothing.
638	Prisoners' Board.	638	Prisoners' Board.
641	Grants.	641	Grants.
645	Elections.	645	Elections.
651	Interest—General.	651	Interest—General.
653	Interest—Bonds.	653	Interest—Bonds.
654	Interest—Mortgages.	654	Interest—Mortgages.
656	Commission and Exchange.	656	Commission and Exchange.
658	Amortization of discount on bonds issued.	658	Amortization of discount on bonds issued.
661	Pensions.	661	Pensions.
663	Rebates and Discounts on Taxes.	663	Rebates and Discounts on Taxes.
665	Collectors' Commissions.	665	Collectors' Commissions.
671	Depreciation and Writeoffs.	671-1	Depreciation and Writeoffs
			—Furniture and fixtures.
		671-2	—Hand Tools.
		671-3	—Accounting Machines.
		671-4	—Motor Vehicles.
		671-5	—Horses and horse drawn vehicles.
		671-6	—Instruments and apparatus.
		671-7	—Fire equipment.
		671-8	—Water meters.
		671-9	—Police equipment.
		671-10	—Road machinery.
		671-11	—Equipment repair.

INVENTORY VALUATION OF PUBLIC MANUFACTURING COMPANIES

Memorandum Regarding Roundtable Discussion at Annual Meeting in Saskatoon, August 1939

AT THE Dominion convention last year there was held, for the first time at these gatherings, a roundtable discussion, the subject of which was the important one of Auditors' Reports. A keen interest was taken in the discussion and there can be no doubt that the exchange of views by the delegates from the various Provincial Institutes was of great value to all who took part in this informal meeting and to the profession generally. The points brought out in the discussion were summarized and published in THE CANADIAN CHARTERED ACCOUNTANT of December 1938.

It has been decided to hold a similar roundtable discussion at the annual meeting to be held in Saskatoon in August and the subject of Inventory Valuation has been chosen. The importance of this subject cannot be exaggerated as it is one with which the practising accountant is concerned in practically every set of accounts to which he is required to append his report, and in particular the inventory valuation is the corner-stone of the income statement included in the annual accounts of corporations on which he is required by statute to report to the shareholders. In this connection the following inventory descriptions taken from the published balance sheets of a number of representative companies may be of interest:

- (1) Inventories \$.....
 Less: Contingency Reserves
 (Inventories were certified by the management—quantities determined by count or from book inventories verified by count during the year and valued at the lower of cost or market after applying the reserves shown.)
- (2) Stocks of Beer, Malt, Hops and Supplies
 As determined and certified by responsible officials of the Company. Valued in each case at cost or under and not above market value at this date, less Reserve.
- (3) Inventories—determined and certified as to quantities and condition by the Management—
 Canned Salmon, Pilchards, Herring, Clams, Oysters, Meal and Oil, etc. on hand, on consignment and in transit, valued on the basis of (a) amount sold under sales contracts at net selling value, (b) remainder at cost (excluding depreciation) or market value, whichever is lower \$.....

INVENTORY VALUATION

Store Merchandise, Cans, New Nets, Labels, etc.— at cost or market whichever is lower
Used Nets, Fishing and Operating Supplies—as valued by the Management

- (4) Inventories valued on the Companies' usual basis, viz: Finished and partly finished products and lumber manufactured by the Company, at estimated net realizable value after allowance for selling and delivery expenses and profit (not being in the aggregate higher than manufacturing cost); wood, purchased products and sundry supplies at approximate laid-down cost; all as determined and certified by responsible officials of the Companies:
 - (5) Inventories of Grain, Merchandise, Containers, and Supplies valued on the basis of the lower of cost or market, adjusted for outstanding contracts, as certified by responsible officials of the Company, less Reserve
 - (6) Inventories \$.....
 Certified by responsible officers of the Companies; Raw Material and Supplies at not over purchase cost; Finished Goods at less than market as determined on the Companies' usual basis.
 - (7) Inventories, determined and certified as to quantities and condition by responsible officers of the company:
 Crude oil and refined products (on basis of cost of crude oil, which was approximately \$..... higher than replacement value) \$.....
 Materials and supplies (at cost)
-

From the auditors' report of this company:

In accordance with the company's established practice the opening and closing inventories of crude oil and refined products for the year 1938 have been valued on the basis of cost of crude oil; had both of these inventories been valued on the basis of cost or replacement value of crude oil, whichever was lower, the net profit for the year ending December 31, 1938 would have been approximately \$..... less than the amount shown on the attached statement.

- (8) Inventories of Finished Products, Work in Process, Raw Materials and Operating Supplies certified by responsible Officials as being on hand and valued at laid-down purchased or manufacturing cost, determined in accordance with the Companies' usual practice, or at current market price, whichever was lower, and advances on Pulpwood Contracts and Wood Operations
- (9) Inventory of Raw Cotton, partly manufactured and manufactured stock, Supplies, Chemicals, etc., as determined and certified by the Management and valued as to Raw Cotton at cost or market value, whichever is the lower, and as to Merchandise and Supplies at average cost or less and not over replacement value, less Reserves
- (10) Inventories of Manufactured and Partly Manufactured Products, Raw Materials, Supplies, etc., quantities and condition determined by the Management, valued on a conservative basis and not over replacement value, less Reserves

- (11) Inventories of raw materials, supplies, work in process and finished stock, valued on the basis of cost or market prices, whichever were lower—as determined and certified by responsible officials of the company

Despite the fact that certain fundamental principles have been accepted generally by the profession for the valuation of inventories, problems arise in the detailed application of these principles in many cases and the correct treatment becomes, to some extent, a matter of judgment. The subject should therefore prove a fruitful one for discussion and it is expected that the following matters relative to inventory valuation will come under review:

(1) What exactly does the expression "cost or market, whichever is lower" imply and what is the "market" yardstick, particularly in the case of finished goods?

(2) In cases where a company uses raw materials which are subject to violent fluctuation, is it always good practice to adjust the inventory valuation to the basis of "market" at the year-end where such valuation is lower than cost? If this is done should the write-down be shown separately in the statement of profit and loss submitted as part of the annual accounts? Conversely, if the market recovers after the close of the year should there be some reference in the accounts of the following year to the write-down at the previous year-end as affecting the profits of the year?

(3) Inventories have generally been found to be determined on one or other of the following four bases of clearance:

- (a) First in—first out
- (b) Last in—first out
- (c) Highest priced—first out
- (d) Clearance at weighted average cost.

Discuss the merits and demerits of each basis.

(4) In the case of a plant running at less than normal capacity, what policy should be followed in the inclusion of factory overhead in the inventory valuation?

(5) In some cases it has been found that the costs (and therefore the inventory valuation) are based on a provision for depreciation, which is greater than that set up in the financial accounts, through the inclusion in the costs of a provision on plant which has been fully depreciated on the books and on which no provision is charged against profit and loss.

(6) It has been advocated by some that the "normal" or "basic" inventory of a business constitutes a fixed investment of capital just as much as the fixed assets do, and that therefore this "normal" inventory should be considered separately from the remainder or "surplus" inventory for valuation purposes.

(7) "Standard" costs have been adopted by a large number of industrial concerns in recent years. Discuss the special points which should be investigated in passing upon inventories valued on this basis.

(8) Discuss the importance of a consistent basis of inventory valuation from year to year.

(9) Does the wording generally adopted in describing inventories on balance sheets submitted with annual accounts comply strictly with the requirement of the Dominion Companies Act that "every balance sheet shall be drawn up so as to distinguish severally at least the following classes of assets and liabilities, namely . . . inventory, if any, stating the basis of valuation adopted and the manner in which such value has been determined in respect of various sub-divisions of such inventory"?

Discuss use of the phrase "as determined and certified to by the management."

(10) Inventory reserves—Discuss the advisability of disclosing the amounts thereof on the face of the balance sheet.

(11) Inventory valuation in special businesses; e.g. sales realization method in the oil business, valuation in the grain business, etc.

The foregoing are some of the obvious matters which would arise in any discussion of inventory valuation, and no doubt many other points will be developed out of the practical experience of those who will be present at this year's meeting. Whilst it is not the intention that formal papers should be prepared for the purpose of this discussion it would seem desirable that those taking part should have some notes on the points which they wish to bring up. It is not intended that any of the matters discussed will be put to a vote which will be binding on the Dominion Association in any way, the purpose being merely to exchange views informally on this important subject.

In the June 1939 issue of THE CANADIAN CHARTERED ACCOUNTANT there appeared the recent report of the Special Committee on Auditing Procedure of the American Institute of Accountants. Considerable interest has been aroused thereon in Canada, and since the report in part deals with the subject of inventories it is expected that a part of the roundtable discussion period will be given to it.

INCOME WAR TAX ACT DECISION

Decision in the Riedle Brewery Case Reversed

IN the August 1938 issue of THE CANADIAN CHARTERED ACCOUNTANT excerpts were published from the reasons for judgment of Mr. Justice Maclean of the Exchequer Court of Canada, disallowing the appeal of Riedle Brewery Limited from a decision of the Minister of National Revenue. The issue was simple, the question involved being whether expenditures made by the appellant for "treating" potential customers to its beer were proper deductions from gross profits for the purpose of arriving at net profits for Dominion income tax purposes. While the issue was simple, determination caused Mr. Justice Maclean some difficulty and on a further appeal to the Supreme Court of Canada, while the appeal was allowed and the decision in the Exchequer Court reversed, the Court of five judges divided itself three to two upon the question. Reasons for judgment written by Mr. Justice Kerwin in favour of allowing the appeal were concurred in by Mr. Justice Crocket and the Chief Justice, Sir Lyman Duff, the latter writing a short note as well. The reasons adopted by the minority judges, Mr. Justice Davis and Mr. Justice Rinfret were written by the former.

The Issue

In the return of the appellant of its 1933 income there was claimed as an operating expense the sum of \$4206.40 which was disallowed by the Minister. The appellant was controlled through stock-ownership by A. W. Riedle, since deceased, who also controlled at the material times eleven other companies each of which owned and operated a hotel in Manitoba where the appellant also carried on its business. In all of these hotels officers of the appellant expended in

the 1933 period about sixteen hundred dollars in purchasing from the hotels beer of the appellant's own manufacture which they presented to the patrons of the hotel. Actually no money changed hands but the cost of such beer was credited on the books of the hotels as an offset to indebtedness of the hotels to the appellant. The officers of the appellant expended the balance of the aforesaid sum of \$4206.40 in purchasing for treating the appellant's beer in over fifty other hotels in the province. The judgment of the Supreme Court of Canada was that this sum could not be disallowed as an expense or disbursement "not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income" under section 6 of the *Income War Tax Act*.

Illegality of Expenditure

It was established by the evidence that the practice of treating was virtually universal in Manitoba by the breweries operating in the province. Mr. Justice Maclean of the Exchequer Court concluded that treating was not a necessary business expense in that the expenditures for that purpose did not improve sales. All the members of the Supreme Court of Canada who sat on the appeal disagreed on this point with Mr. Justice Maclean. The further ground for disallowance that the expenditures were illegal under Manitoba law caused the Supreme Court judges much more concern. Consideration was given to provisions of the Government Liquor Control Act of the province which prohibited solicitation of orders for the purchase of liquor and prohibited beer licensees from supplying beer except for current money in payment. Mr. Justice Kerwin for the majority of the court said that the court should not in these proceedings undertake the responsibility of determining the guilt or innocence of the appellant under the provincial enactment. Chief Justice Duff added his view that it was incumbent in the Crown to establish an actual violation of the statute and he did not see, having regard to a judgment of the Judicial Committee of the Privy Council in 1927, how the Minister of National Revenue could enter into the investigation of such an issue. Mr. Justice Davis for the minority of the court considered the provisions of the Manitoba Act in the light of the evidence in some detail. Inasmuch as purchases for treating from

hotels owned by Mr. Riedle were not paid for in cash, he thought there was a plain violation of the Manitoba law. Purchases for treating from other hotels were often settled by cheque, subsequently given and here again Mr. Justice Davis thought there was a violation of the Manitoba Act by the licensee. The appellant, being a party to the offence, was guilty under another section and accordingly, the payments for treating could not be said to be "necessary" for the purpose of earning the income. The word "necessarily" in the Canadian Act did not appear in the English Income Tax Act and the narrowing effect of the additional adverb had to be kept in mind in considering English cases. In any event Mr. Justice Davis thought the expenditures for treating were of such an unusual nature in the brewery business that they could not be said to come within the contemplation of the Dominion Act as expenses for the purposes of earning income.

For the Purpose of Earning the Income

All judges gave consideration to the point raised on behalf of the Crown that the treating expenditures were not made for the purpose of earning the income then being assessed. Mr. Justice Maclean had thought that properly regarded they were of the nature of a levy by the licensee and that in any event they ought to be regarded as of a capital nature, an expenditure looking towards establishment of goodwill. Mr. Justice Davis agreed as to this and thought there was analogy with a Privy Council decision in a New Zealand appeal. The appellants in that case, also a brewery company, had spent money in canvassing to defeat a prohibition proposal and then sought to deduct the same in computing their assessable income. The Privy Council, while putting aside the circumstance that the expenditure was not of such a nature as to produce income in the actual tax year in which it was incurred, held that it had not been incurred for the direct purpose of producing profits. It was a voluntary expense incurred with a view to influencing public opinion against taking a step which would have depreciated and partly destroyed the profit-bearing thing. Mr. Justice Kerwin, for the majority of the Supreme Court of Canada, stated that in considering whether the money was laid out for the purpose of earning the income for the 1933 taxation period, a certain degree

of latitude must be allowed. He pointed out that in the case of a manufacturing company employing travellers to solicit business, meticulous examination of their expense accounts might easily disclose that sums expended towards the end of one taxation period were not productive of orders or of the filling of the orders or of the payment for the goods supplied in the same period. That result should not prevent the company deducting such expenses in its returns under the act. The statutory provisions should be given a reasonable and workable interpretation by holding that as long as the disbursements were expended *for the purpose*, i.e. with the object and intent that they should earn the particular gross income reported for the period, they were legitimate deductions.

NEW LEGISLATION RESPECTING TAXATION DOMINION AND PROVINCIAL

Editor's Note: The information published under this heading indicates only in general terms the nature of recent legislation of the Provincial Governments respecting Taxation. *For the Text of the legislation, readers should refer to the respective Acts.* As the Dominion Income Tax Act, for the sake of convenience, has been having frequent office consolidations, it has been decided to publish in this column, for reference purposes, the amendments in full each year. A copy of the Dominion Statute can be obtained from the King's Printer, Ottawa, and of a Provincial Statute from the King's Printer of the Province concerned.

To provide information to chartered accountants who are called upon by their clients to prepare taxation returns in other provinces, the Dominion Association of Chartered Accountants some time ago sent to the reference library of each provincial Institute a complete set of tax legislation passed by the various provincial legislatures, and is keeping this information up to date by sending copies of amendments to such legislation as soon as these amendments are available for distribution.

(Continued from July issue)

II. Alberta

The Corporations Taxation Act—The principal provisions of the 1939 amendments are as follows:

(a) Grain Elevators—The tax on grain elevators is made a tax in respect of twelve months ended 31st July. A special return must be filed by 1st August and tax paid on or before 1st September.

(b) Loan Companies, Trust Companies—Loan companies and trust companies are required to file detailed statements of investments in the Province and gross income therefrom. The tax on loan companies whose gross income does not exceed \$2,000 may be reduced by order-in-council.

(c) Express Business—The definition of persons liable to tax in respect of express business is enlarged to include railway companies doing an express business in Alberta.

(d) Certain Non-Canadian Companies—A formula is provided for the calculation in Canadian dollars of the tax on capital of companies whose capital is in money other than Canadian or United States dollars.

The Corporations Temporary Additional Taxation Act—This Act as amended in 1938 provided for an increase of 10% in the taxes payable under *The Corporations Taxation Act* for the years 1932 to 1939 inclusive. The 1939 amendment provides for the continuance of this additional tax in the year 1940.

The Banking Corporations Temporary Additional Taxation Act—This Act, first enacted in 1938, provided for a 50% increase in taxes payable by banks under Section 4 of *The Corporations Taxation Act* and applied to taxes payable in 1938 and 1939. The 1939 amendment extends the increase to the taxes payable in 1940.

The Income Tax Act—There were no amendments to this Act in 1939 to date (1st August).

III. British Columbia

There have been no amendments to the provincial tax acts in 1939 to date (1st August).

IV. Manitoba

The Corporations Taxation Act—The amendments are limited to a slight change in the requirement that a special return be made where insurance is effected with an unlicensed insurer.

The Income Taxation Act—Under Section 4(n), the exemption (to recipient corporations) of dividends received from corporations doing business in Manitoba is limited to the extent that the profits of the latter have been taxed. The amendment extends the exemption by providing that profits of companies paying a filing fee under Section 4(k) shall be deemed to have been fully taxed.

V. New Brunswick

There have been no amendments to *The Corporations Tax Act* during 1939 to date (1st August).

VI. Nova Scotia

The Provincial Revenue (Corporations) Act—This Act is repealed by Chapter 2, 1939, as of December 30, 1938.

The Corporations Tax Act 1939—This Act substantially continues the capital tax formerly imposed by *The Provincial Revenue (Corporations) Act*, now repealed. Its provisions, however, differ in many important particulars, including rates, and a new tax on profits of corporations is imposed. The Act has effect as from 30th December 1938.

(a) Special Companies—The following classes of companies are taxed on various bases under specific sections of the Act: banks, insurance companies, loan companies, trust companies, finance companies, telegraph and cable companies, telephone companies, gas and electric companies, electric tramways, express companies, railway companies, and public utilities. Such companies are specifically exempt from the taxes imposed generally on incorporated companies.

(b) Other Incorporated Companies—The general taxes apply to every company having its head office in Nova Scotia, or holding assets or transacting any business in the Province. The definition of head office is extremely broad and any place of business may be so designated by order-in-council. Partnerships and individuals are not taxed as companies.

The taxes imposed are as follows:

NEW LEGISLATION RESPECTING TAXATION

On paid-up capital—1/10 of 1% (plus 1/15 of 1% of the amount by which paid-up capital exceeds \$5,000,000), with a minimum of \$10

On net revenue —1%

Paid-up capital includes the paid-up capital, surplus and reserve funds (except any reserve the creation of which is allowed as a charge against revenue for the purpose of the tax on net revenue), mortgages, funded debt and borrowings for capital account. Paid-up capital must not be less than the depreciated value of fixed assets plus inventories.

Allowances from paid-up capital are provided for investments in the proportion that such bear to total assets. Companies transacting only a part of their business in the province are taxed on the same proportion of paid-up capital as their Nova Scotia sales bear to total sales (in some cases this allocation is based on assets).

Net revenue as defined has substantially the same meaning as "income" under the (Dominion) *Income War Tax Act*, and is subject to somewhat similar deductions. A company whose head office is situated outside of Nova Scotia is not taxed on investment revenue and Nova Scotia companies are allowed an exemption in respect of dividends from Canadian corporations which are taxable under this Act or which pay taxes on income to other provinces allowing a similar exemption. Companies transacting only a part of their business in the province are taxed on the same proportion of net revenue as their Nova Scotia sales bear to total sales (in some cases this allocation is based on assets).

(c) Chain stores—Chain stores are subject to taxes set out under (b) above and in addition shall pay a tax of 1/10 of 1% of gross sales in the province.

(d) Persons—The Act provides that "person" shall include an individual, partnership, association, syndicate or trust and any unincorporated organization. Every person having a head office in Nova Scotia or holding assets or transacting any business in the province and having a capital account of \$5,000 or more is subject to a tax of 1/10 of 1% of capital with a minimum of \$10. This tax may be reduced if the person is otherwise taxed under this Act and is proportionately reduced when part of the business is carried on outside Nova Scotia. The Act contains a special definition of "capital account" as applied to persons (Sec. 2, s.s. (2)).

The returns and payment of tax are as follows: Returns are required each year on 1st April. The return covers the position at the end of, or gross sales or revenue for, the fiscal year ended on or prior to 31st December of the preceding year. The tax becomes due on 1st January but is not payable until 1st June, after which date it bears interest at 6% per annum.

The Domestic, Dominion and Foreign Corporations Act—The amendment provides that where a registered company increases its nominal capital after 1st January it must immediately notify the registrar and pay an additional fee. The only other amendment provides for fixing, by order-in-council, the fee payable by insurers of the "Lloyd's" type.

VII. Ontario

The Corporations Tax Act, 1939—The provisions of *The Corporations Tax Act* (R.S.O. 1937, Chapter 29) and the *Corporations Tax Act Regulations* issued 8th August 1935 and 27th February 1937 apply to companies in respect of all fiscal years ending before or during 1938. Those sections of *The Corporations Tax Act* (1937), relating to the taxation of race tracks and race meetings, trotting tracks, bets and

stakes on racing and the taxation of transfers of securities are superseded by *The Race Tracks Tax Act, 1939* and *The Security Transfer Tax Act, 1939*, respectively. Otherwise the 1937 Act is superseded by *The Corporations Tax Act, 1939*.

The principal changes in the bases and rates of taxation brought about by the new Act are as follows:

(a) Loan companies, trust companies and gas and electric companies which heretofore were the subject of special forms of taxation are now dealt with in the same manner as ordinary incorporated companies; also there are certain amendments affecting railways. Otherwise the bases and rates of taxation of companies referred to in previous tax summaries as special companies remain unchanged.

(b) The rates of taxation applicable to incorporated companies not designated as special companies, for fiscal years ending in 1939 and subsequent years are as follows:

Tax on capital— $1/20$ th of 1%

Tax on offices—\$50.00 for each office or place of business in Ontario and if an incorporated company has assets in Ontario but no designated office or place of business in Ontario a tax of \$50.00. Where the paid-up capital (as distinguished from "taxable capital") is less than \$100,000.00— $1/20$ th of 1% of the paid-up capital for each office or place of business subject to a minimum combined capital and office tax of \$20.00.

Tax on net revenue—2%

(c) In determining taxable capital the exemptions and deductions heretofore allowed in respect of goodwill and investments and to mining companies and real estate companies are unchanged excepting that (1) deduction is now allowed for discounts allowed on the sale of the shares of a company incorporated under Part XI of *The Companies Act*, and (2) in determining the allowance for investments, cash on deposit with any incorporated company doing the business of a savings bank and amounts due by a parent company with head office outside of Canada to a subsidiary company shall not be deemed to be loans and advances to other incorporated companies.

(d) Heretofore dividends received from Canadian corporations were exempt where such corporations were taxable under the Act or were paying taxes under Corporations and Income Tax Acts of other provinces and where such other provinces allowed similar exemptions. Only in certain cases are dividends partially or wholly exempt under the new Act. It is suggested that for full particulars of such exemptions reference be made to Section 14(4) (e) of the Act. For the purpose of this summary, specific reference is made only to the three exemptions which would appear to have wide application:

(1) "Dividends received by an incorporated company from another incorporated company to the extent that such dividends have been paid from net income which has been the subject of tax under this section."

(2) "Dividends received by an incorporated company from a subsidiary company incorporated under the laws of the Dominion of Canada or of any province of Canada, the shares of which, with the exception of the directors' qualifying shares, are held by the incorporated company, to the extent that such dividends have been paid from net income which has been the subject of tax under the laws of any other province or provinces of Canada; provided that the exemption allowed in respect of such dividends or parts of dividends as have been paid from net income which has been the subject of tax at a rate less than that imposed by this section shall be limited to that proportion of such dividends or parts of

dividends as the rate of tax paid on such net income bears to the rate of tax imposed under this section."

(3) "That part of the income of any incorporated company, the head office of which is situated outside of Ontario, derived as interest on bonds and obligations of other incorporated companies and of governments, municipal and school corporations and as dividends from other incorporated companies."

(e) The returns are now required to be filed on or before the last day of the month which ends four months following the close of the fiscal year of the company. The tax is payable one-third with the return and the balance with interest at 5% per annum within four months thereafter.

(f) Commencing with fiscal years ending in 1939 every company required to file the return relating to capital, places of business and revenue taxes shall also be required to file a return on or before the 15th day of the month which ends three months following the close of the fiscal year of the company of all dividends and bonuses paid to shareholders and members. Form CT25 (1939), being the return referred to herein, requires only a list of names of all incorporated companies resident of Ontario to which dividends were paid in the sum of \$100.00 or more.

(g) Provisions similar to those contained in the Dominion *Income War Tax Act* for appeal of assessments are now included in the new Ontario Act.

The Assessment Amendment Act, 1939—The only amendment in 1939 which relates to the assessment of income is the following which takes the place of sub-section 9 of section 39 of the Act:

"(9) Notwithstanding anything in this section contained the income tax payable to any municipality upon a mine or mining work liable to taxation under section 4 of *The Mining Tax Act* shall not exceed,—

(a) one and one-half per centum of the amount of the annual profits upon which the tax payable under the said section 4 is based, up to and including \$2,333,333.33; and

(b) two and one-half per centum of the annual profits upon which the tax payable under the said section 4 is based, which are in excess of \$2,333,333.33.

The Income Tax Act; The Companies Information Act—There were no amendments to these Acts in 1939.

VIII. Prince Edward Island

The Personal Property and Special Companies Taxation Act—An amendment affecting acceptance and financial companies permits the making of regulations by Order-in-Council reducing the tax to a fixed percentage of outstanding purchase contracts—minimum tax \$150.

The Income Tax Act of Prince Edward Island—The amendment provides that by giving notice with his return, a taxpayer may defer payment of the 1938 tax to 31st October 1939 without involving interest or penalty—a similar privilege was granted in 1938 for payment of the 1937 tax.

(To be continued in September issue)

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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GENERAL NOTES

Sittings of Exchequer Court in Western Canada

Announcement has been made in *The Canada Gazette* that general sittings of the Exchequer Court of Canada will be held at the following times and places in Western Canada, "provided that any case or matter to be entered for trial or set down for hearing at any of such sittings is so entered or set down at the office of the Registrar of the Court at Ottawa on or before the 28th day of August, 1939; and if no case or matter is so entered or set down for any of such sittings, then the same shall not be holden,"—

Winnipeg, Manitoba, 7th September 1939

Regina, Saskatchewan, 15th September

Calgary, Alberta, 18th September

Edmonton, Alberta, 20th September

Victoria, B.C., 25th September

Vancouver, B.C., 27th September

In each case the sitting will be at the Court House and the hour 11 a.m. (city time).

Annual Meeting American Institute

The fifty-second annual meeting of the American Institute of Accountants will be held at the Fairmont Hotel, San Francisco, September 18th to 21st. On the opening day the council of the Institute will hold its regular meeting in executive session, and the California Society of Certified Public Accountants its annual meeting.

The first general session will convene on Monday the 18th with President Clem W. Collins in the chair. During the afternoons of Monday, Tuesday and Wednesday there will be a series of simultaneous roundtable discussions on a variety of topics, such as inventories, detection of fraud, federal income taxation, municipal accounting, and progress in accounting research. At Thursday morning's general session there will be a panel discussion of the subject "Auditing Procedure," with P. W. R. Glover as chairman. While roundtable discussions will be held on Wednesday, this day is made free of business sessions so as to afford an opportunity to members to visit the Golden Gate International Exposition in progress at San Francisco.

LEGAL DECISIONS

[EDITOR'S NOTE: The following are brief summaries of recent decisions of the Canadian Courts as taken, by the kind permission of the Canada Law Book Company, from the *Dominion Law Reports*. In each case reference is made to the volume of the *Reports* where the full judgment may be found. It should be kept in mind that the decisions given may not in every case be final.]

Companies—Transfer of shares by director— Extortion—Duress

(Stoltze et al. v. Fuller)

Supreme Court of Canada

Though a mere threat in itself is not unlawful, where a director and general manager of a company has been induced to transfer, without valuable consideration, his shares, under threats of criminal prosecution for misfeasance, held, he was entitled to recover the shares or their value as having been obtained under compulsion and was not in *pari delicto* to stifle a criminal prosecution by parting with his shares under such circumstances.

Where the effect of a jury's finding is that there was an intentional design on the part of three persons to obtain, without any valuable consideration, a transfer of a director's shares in a company and the same was demanded and obtained by menaces and illegal extortion, the Court held the director was entitled to recover the shares or their value, irrespective of the question of conspiracy.

Per Davis, J.: "Civil conspiracy is not properly applicable to cases where physical property is sought to be recovered on the ground of duress and is only relevant in cases of general or undefined rights, such as the right to trade, as distinguished from defined rights, such as the right to property."—[1939] 1 D.L.R. 1.

Income tax (Alberta)—Personal corporation—Son living apart from father—Whether member of father's "family"

(Ramsey v. Provincial Treasurer of Alberta)

Alberta Supreme Court, Appellate Division

An adult married son living in his own household apart from his father is not a member of his father's "family" within the meaning of s. 2(g) of the *Income Tax Act* (Alta.) so as to render a corporation controlled by them a "personal corporation" within the meaning of the section.—[1939] 2 D.L.R. 707.

Taxes—Appeal—"Highest Court of final resort"—Meaning

(International Metal Industries Ltd. v. Toronto)

Supreme Court of Canada

The phrase "highest Court of final resort" in s. 37(3) of the Supreme Court Act (Canada) means the highest Court of Appeal having jurisdiction generally in the Province, and not the highest Court of Appeal in the particular case sought to be appealed.—[1939] 2 D.L.R. 295.

(A reference to the judgment in this case was made at page 371 of the May 1939 issue of THE CANADIAN CHARTERED ACCOUNTANT.)

(The summaries of the following cases have been taken from the Dominion Report Service)

Bankruptcy—Municipality privileged not secured creditor for taxes

(Abro David & A. Lamarre v. The City of Montreal)

While a municipality is a privileged creditor for taxes it is not a secured creditor in the sense in which the words are used in the *Bankruptcy Act*, as it has no special right against any particular piece of property but a general right to be paid by preference. Hence, it has no right to seize the property of a bankrupt for taxes.—[1939] 3 D.R.S. 115.

Companies—Compromise with shareholders—One opposed

(Re United Fuel Investments Ltd.)

Pursuant to sec. 122 of *The Companies Act*, (Dominion) 1934, 24-25 Geo. V, the applicant United Fuel Investments Ltd. brought a motion for an order sanctioning a compromise or arrangement between the company and its shareholders. It was sought to make an arrangement between the company and its two classes of shareholders, whereby the authorized and issued capital of the company was to be reduced. This was to be brought about by cancelling \$25.00 of the paid-up capital in respect of each of the issued and outstanding preferred shares and \$50,000 of the paid-up capital represented by the 100,000 issued common shares; and by cancelling 160,000 authorized and unissued preferred shares and 150,000 authorized and unissued common shares. The opposition to the application was entirely the opposition of one man.

The learned justice declared that what was done was not in any sense unjust or unfair. The comparatively insignificant amount involved in what was conceded to the common shareholders was more than amply compensated by the gains contemplated by an agreement. All things necessary for the holding of the meetings in question were properly done, and the voting took place in accordance with the provisions of the preliminary order and the requirements of the statute, so the inquiry was reduced into the simple question: Is the scheme propounded a fair scheme, so as to make it the duty of the court to sanction it. The order asked was made.—[1939] O.W.N. 52.

Contract—Interpretation—Repudiation—Damages

(Norris v. City of Sherbrooke)

Doubts and ambiguities in a contract should be interpreted against the person who has drawn it.

The manner in which a contract is executed is the best proof of the intention of the parties and the meaning of the contract.

Where the person claiming that a contract has been illegally cancelled is not able to show that he has suffered any loss by not being allowed to carry out his alleged bargain, he has no claim in damages.—[1939] 3 D.R.S. 117.

Succession duties—Reciprocal arrangements between provinces—Effect of revocation

(Attorney-General for B.C. v. Union Trust Co. Ltd. & Beck)

Respondents having paid succession duties in Ontario on personal estate of the deceased who died domiciled in British Columbia claimed an allowance therefor in British Columbia.

Held, that the order-in-council making a reciprocal arrangement as to allowances with the Province of Ontario was passed under sec. 9 S.B.C., ch. 61 (now R.S.B.C. 1936, ch. 270, sec. 9) and the said Act had been declared *ultra vires* (*Col v. Atty.-Gen. for B.C.* (1934) 2 W.W.R. 481). It follows that the order-in-council is a nullity.

Sec. 52 of the new Act purports to repeal an Act which is non-existent. Rights or privileges cannot be acquired or preserved by the insertion of this section. Sec. 13(1) of

the *Interpretation Act*, R.S.B.C. 1936, ch. 1, is therefore of no assistance to the respondents.

The term "exemptions from duty" in sec. 50(2) of the *Succession Duty Act* is a separate and distinct matter from "allowances." The former is a total exemption from duty in certain specified cases.

Before a claim for an allowance under sec. 9 in respect of duties paid to an extra-provincial taxing authority can be made the duty must have been paid to such authority and paid prior to the cancellation of the arrangement.—[1939] 1 W.W.R. 208.

PROVINCIAL NEWS

ALBERTA

The twenty-ninth annual meeting of the Institute of Chartered Accountants of Alberta with seventy-one members in attendance was held on Saturday, June 24th, at 2 p.m., at the Macdonald Hotel, Edmonton. The meeting was preceded by a luncheon at which the following guests were present: His Honour Lieutenant Governor Bowen; Mayor Fry of Edmonton; E. W. S. Kane, secretary of the Law Society of Alberta; S. F. Field representing the benches of the Law Society of Alberta; A. E. Ottewell, registrar of the University of Alberta; G. B. Taylor, assistant registrar of the University of Alberta; Dr. E. W. Sheldon of the University of Alberta; W. E. Hodge of Moose Jaw, President of the Dominion Association of Chartered Accountants; and parents of the new members.

Mayor Fry gave an address of welcome and Lieutenant Governor Bowen presented the certificates to the following successful candidates for the December, 1938 examinations: C. V. Milne, J. L. Chaston, C. V. B. Corbet, J. W. Dick and F. E. A. Campbell, Calgary; W. M. Anderson, R. M. Cockburn and G. James, Edmonton; D. G. Gaetz, Lethbridge; and J. W. Brown, San Francisco, and certificates of fellowship in the Institute of Chartered Accountants of Alberta to W. Stuart Johnstone of Edmonton and Kenneth J. Morrison of Calgary in recognition of their conspicuous services to the Institute.

Prizes were awarded to John G. Chaston who obtained the highest marks in the final examinations, and Graham McLellan of Calgary who obtained the highest standing in

the Intermediate examinations. The medal in the primary examination was awarded to D. G. Quinlen of Edmonton.

The following members were elected to the Council of the Institute for the ensuing year: Colin P. Mackintosh, Thomas Humphries, Mervin G. Graves, Fred A. Smith and John H. Williams, Calgary; Chas. M. Lang, E. M. Gunderson, B. G. Aylen and H. A. Black, Edmonton. John G. Chaston was appointed honorary auditor for the year.

At a meeting of the newly elected council immediately following the annual meeting the following officers were elected: President, Thomas Humphries, Vice-Presidents, Mervin G. Graves and H. A. Black; Secretary-Treasurer, Colin P. Mackintosh. Mr. E. D. C. Thomson, Edmonton, was elected to represent the Institute on the Senate of the University of Alberta.

On Friday afternoon a golf tournament was held at the Mayfair Club followed by a dinner and a social evening at the Edmonton Club.

BRITISH COLUMBIA

The Institute of Chartered Accountants of British Columbia held its thirty-fourth annual general meeting in the forenoon of Friday, 23rd June 1939 at the new Hotel Vancouver under the chairmanship of its President, Mr. E. C. Mapson.

The report of the President and those of the several committees indicated that the Council had an active year. A report of great significance was that dealing with the new courses of student education. This outlined the steps taken toward uniform instruction and examinations under the guidance of the Dominion Association. Gratifying progress was made along these lines by the special educational committee of the British Columbia Institute under the chairmanship of Mr. W. G. Rowe. Two by-laws were amended to implement the purposes of such uniformity.

The following members were elected to the Council for the ensuing year: C. G. Chambers, V. R. Clerihue, G. V. Coles, W. H. Cotter, K. D. Creer, Frederick Field, R. C. Field, G. F. Gyles, E. C. Mapson, W. G. Rowe, R. W. Underhill and J. H. Young.

Mr. W. E. Hodge, President of the Dominion Association of Chartered Accountants, was present at the meeting and

spoke to the members of the significant work done during the year by the Dominion Association. The meeting passed a very sincere vote of appreciation for the work of Mr. A. H. Carr, secretary-treasurer of the Dominion Association and editor of THE CANADIAN CHARTERED ACCOUNTANT.

In the afternoon a golf match was held at Shaughnessy Golf Club where, in the evening, an informal dinner was held. After dinner moving pictures, taken during the golf match, were shown. Prizes awarded for the afternoon's golf seemed to exhaust all possible distinctions in such a game.

Mr. H. C. Chiene, senior member of the Institute, presented certificates to the following new members recently admitted by examination: T. A. A. Fraser, F. A. Griffiths, S. M. Horner, L. P. Kent, B. W. Power and C. A. Nixon.

MANITOBA

Following the usual delightful custom the Fifty-Third Annual Meeting of the members of the Institute of Chartered Accountants of Manitoba was held on June 28th at Lower Fort Garry on the banks of the Red River. At this historic spot, business was soon disposed of while members relaxed in the shade of the trees.

Proceedings for the day opened with a meeting of subscribers of the Manitoba Chartered Accountants' Benevolent Association. Annual accounts as presented by T. H. Rathjen were approved.

At the general meeting references were made in complimentary terms to the services enjoyed by the Council and Institute over a period of many years from Messrs. John Parton and William Gray. As these members of Council were not offering themselves for re-election, several members expressed appreciation of their splendid work for the profession. In particular, mention was made of the period of Mr. Parton's membership on Council, which extended without interruption for 26 years. His great interest in the Dominion Terminology Committee and his Chairmanship of the Board of Examiners-in-Chief of the Manitoba Institute since 1923 were noted. The efforts of Mr. Gray were also praised and comment was made on the contribution which he had made towards raising and maintaining a

high standard of scholarship for accountancy students, as well as his other work on the Institute Board of Studies.

A count of the ballots disclosed the following elected to serve a two-year term as councillors: R. T. Cunningham, F. Johnson, S. B. Laing, C. W. Lynde, W. J. Macdonald, J. S. Swinden and E. J. Williams.

Thomas W. Saul, Fred Johnson and F. C. Gilbert were again returned to the offices of President, Vice-President and Treasurer.

After a pleasant interval, lunch was served on the Club verandah and President Saul presented a memorandum of admission to membership to the successful candidates at the 1939 Final examinations. Charles H. Cowperthwaite and Gordon Grant were announced as winning a prize of books each, and others who passed were James Abbott, William K. Coutts, Ian H. Drennan, James M. Halliday, James F. Tooley, Arthur Monk, Cecil Wesson and Eric Wright.

Announcement was recently made of results in other classes of the Institute and examination prizes were awarded as follows: *Intermediate*—W. A. Henderson Silver Medal and Institute Scholarship of \$50.00 to A. Vernon Neil; *Fourth Year*—\$50.00 Scholarship divided between James B. Prosser and Wilmot W. Shepherd; *Second Year*—\$50.00 Scholarship to Paul Kenway; *First Year*—\$50.00 Scholarship to James G. Gohl; *First Year*—Honourable Mention to Arthur Hillman and William Spaulding.

Successful candidates at the Intermediate examinations in addition were W. Dunsheath, Jack T. Ellis, Gordon Hunter, Frederick Kiewel, Richard Lavender, Douglas MacKay, Albert Riley, Geoffrey Patrick and Reginald Walton.

SASKATCHEWAN

The thirty-first annual meeting of the Institute of Chartered Accountants of Saskatchewan was held at the Hotel Saskatchewan, Regina, on Friday, 16th June 1939.

The President, Mr. T. E. Robinson, gave a lengthy report of the activities of the Institute for the year ended 31st May 1939, mentioning in particular the progress that had been made in regard to the adoption of Uniform Examinations and The Standardized Syllabus. The Secretary, Mr. T. H. Moffet, reported on matters of finance, membership, etc.

PERSONALS

The election of officers and council for the ensuing year resulted as follows:—

President, W. Stempel, Saskatoon; Vice-President, M. Hesford, Swift Current; Secretary-Treasurer, T. H. Moffet, Regina. Members of Council: T. H. Moffet, R. Patterson, F. A. Robertson, T. E. Robinson, all of Regina; W. Stempel, G. G. Patrick, and C. P. DeRoche, all of Saskatoon; M. Hesford, Swift Current, and W. C. Jeffery, Weyburn. Representatives on Dominion Council: W. Stempel, M. Hesford and T. E. Robinson.

In the evening a dinner and dance was held for the members and their ladies, which was a very enjoyable affair. The guest speaker at the dinner was Mr. E. C. Leslie, K.C., whose address was well received.

PERSONALS

C. M. Benson, George Sayer and M. B. Davidson announce the dissolution of their partnership known as Benson, Sayer & Davidson, with offices in the Confederation Life Building, Toronto, as of 31st May 1939.

George Sayer begs to announce he has opened an office for the practice of his profession at Room 708, 137 Wellington Street West, Toronto.

OBITUARIES

The Late Edwin Denby, C.A.

The Institute of Chartered Accountants of Alberta regret to record the death on 27th April of Mr. Edwin Denby of 11413-102nd Avenue, Edmonton, a member of this Institute since 1913 and engaged in active practice up to the time of his death.

Mr. Denby was born in Sidmouth, Devonshire, England on 21st May 1861, and lived for a number of years in New York City where he was a certified public accountant of the State of New York, having received his certificate in 1903. He took up residence in Edmonton in 1911. Mr. Denby was a member in good standing of the Masonic Craft at the time of his death.

The sincere sympathy of this Institute is extended to his widow and to four sisters living in England.

The Late Charles Henry May, C.A.

The Institute of Chartered Accountants of Ontario regrets to announce the death at Hamilton, Ontario, on 15th July 1939 of Charles Henry May at the age of thirty years.

The late Mr. May served with Gunn, Roberts & Co., chartered accountants, Toronto, and after passing his final examination was elected to membership 1st February 1935. Since 1936 he had been engaged as auditor with the Excise Division, Department of National Revenue, Hamilton, which position he held at the time of his death.

To his widow and immediate family the Institute extends sincere sympathy.

CORRESPONDENCE

(*Editor's Note:* Following the posting to members of instalments of information on taxation, accounting terminology, etc., Mr. Walford whose experience in the profession extends back over fifty years, kindly wrote us, and his interesting letter is published below.)

Montreal, July Third 1939

Mr. Austin H. Carr,
10 Adelaide Street East,
Toronto.

Dear Mr. Carr:

I have received your circular letter with enclosures, as therein stated, for all of which I thank you.

These circulars containing rulings and regulations regarding taxation, etc., are most useful. We are, moreover, particularly interested in the sheets bearing upon accounting terminology. Such information supplies a real want. If your experience ran back for over fifty years, as mine does, you would appreciate, perhaps even more than you can today, the advances and improvements made in respect of terminology. The time was when "merchandise account" and "expense account" were the two great dumping grounds for every conceivable type of merchandise entry or expense, and when there was no distinction between "capital" profits and "trading" profits. Depreciation also was almost unheard of. Indeed, it was the imposition of the Income Tax which developed the present appetite for Depreciation. These remarks refer to really large concerns.

Whilst on the subject of the progress in Accounting, may I say that your article bearing thereon, in August 1938, was to me exceedingly interesting.

As already mentioned, my experience runs back to 1885, at which time there were no typewriters, calculating machines nor bookkeeping machines: all was done by hand. The firm for which I worked was supposed to be very progressive, and I recall how surprised the bookkeeper of a large firm was when he found that we did not journalize our Cash, but posted directly from the Cash Book to the Ledger—Sales likewise. On the other hand, the cashier of the firm amazed me when, years later, he told me that his firm had adopted loose-leaf cash books! At that time loose-leaf ledgers were such an innovation that the Courts hesitated to accept the evidence supplied by loose-leaf ledger sheets; and a loose-leaf cash book was supposed to be an inducement to theft.

Today, an invoice may be typed in Montreal and recorded in Chicago, or New York, or Toronto, simultaneously.

And with it all, our executives are more careworn than ever before!

Sincerely yours,

ALFRED WALFORD.

Toronto, 14th July 1939.

The Editor,
The Canadian Chartered Accountant.

Dear Sir:

With reference to Ontarian's letter to you in the July number of THE CANADIAN CHARTERED ACCOUNTANT, it would be interesting to know what Ontarian had in mind. Is one to assume that he grades his certificate according to the resources of the concern whose balance sheet he audits? The total assets of International Nickel are \$253,-

AUGUST, 1939.

000,000 and their certificate contains approximately 245 words while the concern whose certificate he quotes has total assets of \$3,100. Therefore, presumably, the certificate of the latter would consist of .003 words.

As a matter of fact, my experience is that the smaller the concern the less the internal check and therefore the greater likelihood of something going wrong. The auditor's reputation is besmirched just as much if he has been remiss in a small audit as in a large one, but naturally the publicity is less.

Yours very sincerely,
A. READER.

BOOK REVIEWS

ACCOUNTING FOR PUBLIC PROPERTY

(Published by the *Municipal Finance Officers Association*, 1313 East Sixtieth St., Chicago, 1939, paper, 48 pp., 50c)

This accounting manual is intended as a guide to public officials in the establishment of adequate accounting controls over publicly owned property. It describes inventory and accounting procedures for all fixed assets, including land, buildings, other improvements and machinery and equipment. Variations in procedure are pointed out in order that both large and small political units may be served. A further aid to local officials in setting up the control over fixed assets appears in the section entitled "Summary of Accounting Procedure" which provides a check list of the steps to be taken.

A STANDARD CLASSIFICATION OF MUNICIPAL REVENUES AND EXPENDITURES

(Published by the *National Committee on Municipal Accounting*, Chicago, as Bulletin No. 9, 1939, paper, 103 pp., \$1.00)

This bulletin seems to have been well prepared, by submission to different people for their opinions, and it has been revised several times. It is now published tentatively as to form and content. The object of the National Committee on Municipal Accounting, and it is a worthy one, is to bring about greater comparability of financial statistics between municipalities by (1) defining terminology, (2) classification of accounts, and (3) explanation of entries.

The bulletin contains explanatory notes for recording various transactions occurring in municipalities. It gives definitions of a number of terms commonly used in municipal accounting but not always understood, and it gives suggestions upon matters of principle. It stresses the importance of a standard classification, chiefly for the purpose of making financial comparisons between different cities and for facilitating the preparation of statistical information. It is important that the budget should be prepared under the same classification as that on which the statements of actual revenue and expenditure will afterwards be submitted. The classifications are suitable for cities and perhaps larger towns, but not for rural municipalities. Every classification of accounts has its limitations and its only object is to develop useful information in the form most acceptable to the greatest number of people. The authors admit that while this standard

classification is "devised to reflect financial data in a number of different ways it should not be expected to supply every kind of financial information." The basis of classifying expenditures as explained by the authors is by *functions* and *activities*. This reviewer agrees with the statement that "a clear-cut distinction between functions and activities is not always practicable," but generally speaking a classification by objects is more specific than one by activities. For example: *Function*—Conservation of health; *Activity*—Inspection of milk and dairy products; *Objects*—(1) office supplies, (2) inspector's fees and (3) chemicals, and so on.

Classification of revenues is made on the basis of sources. This appears very complete but it includes a number of items unknown as municipal revenue in Canadian cities. An ingenious definition of revenue is given on page 2 as "additions to cash or other current assets which do not increase any liability or reserve nor represent the recovery of an expenditure." The principle laid down here that an item should not be classed as a revenue when it represents the recovery of an expenditure, while correct in theory, is sometimes difficult of application. The authors rightly suggest that "some adjustments will be necessary in adapting this classification to the requirements of a particular municipality." And further "an individual city may have to arrange its accounts in order to build up a classification which fits its structure." But while the Committee makes this suggestion it is pointed out on page 10 that for "state or nation wide reporting standard arbitrary groups by sources and activities must be followed." It is assumed by the authors that some cities report revenues and expenditures under a *cash* basis while others report on an *accrual* basis and the standard classification has been drawn up so that it may be adapted to either plan.

No classification of accounts for public utilities, such as water-works and electric light, is given, but readers are advised to use the classification prescribed by their own state utilities commission. The difficult matter of hospital accounting is dealt with in a few words. A codification of accounts by numbers or letters or both is recommended. This time-saver is particularly valuable where tabulating or other mechanical devices are used.

It is somewhat of a surprise to find a classification of expenditure accounts with no mention of depreciation, and no mention of bad or uncollectable accounts. In cases where debentures have been issued for a term not exceeding the physical lifetime of an asset constructed out of the proceeds of such debentures the provision for redemption of the debentures represents the depreciation. But when it happens that debentures have been issued for a term exceeding the estimated lifetime of the property then "additional depreciation" is necessary and an account under this heading should be included in the classification. Some attention should be given to the matter of reducing revenue to a cash basis by way of provision for either definitely uncollected taxes or estimated uncollectable taxes and other receivables.

Saskatoon, 3rd July 1939

V. J. Ferguson.

STOCK BROKERS' ACCOUNTS

Theory and Practice

This series of discussions on the subject of stock brokerage accounting theory and practice has been prepared by a group of members of the profession familiar with the subject. They desire to have it understood that the definitions, opinions and observations appearing in this column are their own and are not necessarily those of the Dominion Association.

(Continued from July issue)

Dividends

One of the important duties of a stockbroker is to account to customers for dividends declared and paid by companies whose shares are being carried on margin by the broker for the customer. The rules of stock exchanges on this continent provide that all rights pertaining to a share of stock pass to the purchaser as of the date of purchase; accrued dividends are one of these rights and the purchaser is therefore entitled to all dividends declared and paid so long as he is the beneficial owner of shares. The word "beneficial" is used as purchasers will not be able to have certificates registered in their own names until they have discharged the obligation to the broker for the purchase price.

To facilitate the accounting for dividends, stockbrokers generally have transferred to their own names all certificates covering dividend paying securities. When a dividend is paid, the broker will receive funds covering the full dividend on all shares registered in his name. The entry made on the receipt of these funds is a credit to Dividend account (generally an account controlling a subsidiary ledger in which an account is opened under the name of each dividend paying security). Prior to the receipt of these funds, the broker will have determined his position in respect of his liability to his customers by reference to his stock position book. He will find from this book that customer A is carrying 25 shares on margin and is entitled to the dividend on 25 shares; customer B is carrying 150 shares on margin and is entitled to the dividend on 150 shares, and so on. On the payment date, a journal entry is made debiting dividend account with the computed total and crediting each customer with the amount to which he is entitled. Should

the broker own shares himself, he will credit his own account similarly.

It will probably happen that the broker will have on hand or on loan at his bank or due from other brokers or due from a customer who has made a short sale (or not delivered certificates already sold) some certificates in the names of other brokers or private individuals. He is entitled to the dividend on these certificates which will be paid directly to these other parties. He will therefore "claim" on them for the amount owing to him and make a journal entry debiting them and crediting his dividend account.

Because of the fact that brokers and customers do not always transfer into their own names certificates for shares held by them, it usually happens that the funds received by the broker for dividends directly from the company or transfer agent plus the claims which he is making on other brokers or individuals will exceed the total due to customers and himself. The excess credit remaining in the dividend account is carried forward and reduced from time to time by payments of claims made on the broker by others. The resulting balance is usually carried for at least the period of time covered by the Statute of Limitations and eventually is transferred to the broker's profit and loss or capital account.

In brokers' offices executing a large volume of business, it has been found useful to carry, in the dividend subsidiary ledger, accounts under the name of each dividend paying security and to divide these further by opening accounts for each particular dividend payment date. This provides for easy analysis of old unclaimed positions by keeping these separate from current positions.

Brokers, of course, must collect and pay over to the Minister of National Revenue the appropriate amount of income tax to be withheld from dividends credited to the accounts of non-residents.

It is not customary for auditors, unless by special request of the broker, to examine closely entries made in the dividend account. The mailing of confirmations of accounts to customers serves generally to protect their positions. One should, however, inquire into any particular dividend

subsidiary account, which is in debit balance, to evaluate the possibility of collection, and should also inquire into any transfer to profit and loss account or capital account to ensure that it is a reasonable one under all the circumstances.

Some difficulty is experienced by those unfamiliar with stock brokerage problems in understanding the various dates mentioned by newspapers or brokers in discussing this subject. There are three dates commonly referred to:

1. The record date, being that date determined by the directors of the issuing company as the date of the closing of the transfer records.

2. The payable date, being that date determined by the directors of the issuing company as the date of the payment of the dividend.

3. The ex-dividend date, which is a date arbitrarily set by the stock exchanges and which is a date a few days earlier than the record date. This ex-dividend date set by the exchanges is the controlling date used by the brokers in determining their position with customers. Any customer who has purchased or acquired shares before this date and who continues to own them up to the close of business on the day immediately preceding this date is entitled to the dividend on these shares. The ex-dividend date is set earlier than the record date in order that those who have purchased prior to the ex-dividend date may have an opportunity of receiving certificates and transferring them to their own names before the transfer books are closed on the record date.

TERMINOLOGY DEPARTMENT

The articles in this Department, unless otherwise stated, are originally written by the Chairman of the Terminology Committee and submitted to the members thereof; they are afterwards revised by him after consideration of suggestions made by the members.

If it should be thought that any articles include too much primary or elementary matter, readers are asked to realize that the Committee hopes these articles will be of especial value to Students-in-Accounts; and it is believed that, to impart a thorough understanding, too much emphasis cannot be placed on the fundamental principles on which the ideas connoted in the term defined are based.

(Continued from July issue)

Remainderman: See "Life Tenant."

Renewal: The continuance of the terms of an existing contract or instrument either wholly or in part, or with or without modifications, by a new contract or instrument or a supplementary contract. The term is used in the cases of extensions of mortgages, leases, bills of exchange, etc.

Renewals and Repairs: "Renewals" (or "replacements") are the replacements of machinery and equipment units which have ceased to be functionally efficient, whether by long usage, by obsolescence or as the result of accident. The necessity of such replacements is of comparatively infrequent occurrence and usually the cost is a material amount. It is therefore customary and proper to charge the cost of renewals to capital and to charge the net book value (i.e. cost less depreciation already provided for) of the asset replaced to operating account.

"Repairs" are the constant steps that are necessary to maintain machinery and equipment at a normal state of efficiency by repairing or renewing parts damaged by constant use or by accident, and may include actual replacements of machinery parts which wear out rapidly. The cost of such repairs should be charged directly to operations.

It is often difficult to differentiate between a repair and a renewal from a physical standpoint. In such cases all the circumstances must be considered and care taken that the accounting treatment does not result in an inflation of fixed asset values or, conversely, in an overcharge to operating costs.

Renewal and/or Replacement Fund: Other terms for "Depreciation Fund." (q.v.)

Rent: Consideration paid to an owner of property for its use by a tenant or hirer.

Rent Roll: The record of rents receivable kept by an owner of property or his agent.

Reorganization: A major change in the financial structure, management, or business policy of a corporation or a group of associated corporations.

Repairs: See "Renewals and Repairs."

Replacements: See "Renewals and Repairs."

Replacement Value: Reproduction Cost: Terms used in appraisals; the estimated cost, at prices current at date of valuation, of replacing fixed or other assets.

Reserves and Reserve Funds: Much has been written and considerable controversy held as to the meaning of these terms, and what is represented by them. During recent years, however, attempts at greater clarity have been made with some success, and the following is offered as an explanation of the terms after reference to a number of authoritative sources. Reserves may be classified under three divisions:

(1) Those which arise from charges to profit and loss or surplus to provide against undetermined liabilities or losses on assets; e.g., income tax, depreciation, bad debts, etc.

(2) Those which are appropriations from surplus set aside either for general or specific purposes, but which are still part of the net worth, being neither liabilities nor adjustments of asset values.

(3) Those similar to No. 2, but in regard to which funds have been specially invested which are shown as assets; e.g., sinking fund.

Regarding No. 1, these are in the nature of "provisions" (q.v.). As such their proper places in a balance sheet are either as deductions from the asset values affected or as liabilities shown in their proper groupings, as the case may be.

Nos. 2 and 3 are shown as reserves which may be grouped under a general heading as such, and particularized individually with the appropriate adjectives (sinking fund reserve, general reserve, etc.). In this connection the term "rest" is used for the general reserve of a bank.

The corresponding assets by way of funds applicable to No. 3 are shown under the name given to the reserves; e.g. "sinking fund," "replacement fund," etc. The "fund" is the actual cash and securities held for a specific reserve.

It is improper to use the word "fund" in describing any

reserve item on the liability side which is not offset by an actual fund of cash and investments, since otherwise it is simply part of the whole surplus which is spread over all assets.

Residual Value: The estimated value which will remain after the normal usefulness of an article of equipment in its intended function has been exhausted; ultimately the scrap value.

Residuary Legatee: The person who under a will is entitled to the remainder of the estate after all debts and prior legacies have been paid or otherwise satisfied.

Resources: A term sometimes used for assets.

Rest: The general reserve of a bank. See "Reserves and Reserve Funds."

Retail Method of Inventory: A method employed by retail stores for the rapid estimate of value of stock in trade at interim periods which avoids the two distinct operations of (a) physical stocktaking and (b) a detailed valuation of the items included. Merchandise is charged to departments at selling price and adjustments made for subsequent special price increases or reductions; the average mark up being ascertained, this can be applied to the actual sales to obtain their approximate cost, or to the difference between charges to a department and its sales to obtain the approximate cost of the remaining stocks. The physical inventory taken at the year end being extended at selling values, these are also reduced to cost in total by the application of the known average mark up.

Returns: (1) Statistical and other information required by government departments from corporations and others.

(2) Merchandise returned by customers for which credit has to be given.

Revaluation Surplus: That arising by revaluing plant or other assets and giving effect to the new (higher) valuation in the accounts; a form of capital surplus.

Revenue: (1) In governmental or municipal accounting, the income from taxes and other sources.

(2) The earnings from the business operation of a concern in contrast to the receipts in respect of the issue of capital, or from loans.

(3) A term often used to mean income generally.

Revenue Expenditure: That made in the regular operations of a business and as such charged to profit and loss account as contrasted with capital expenditure (q.v.).

Revenue Receipts: See "Revenue."

Reversing Entry: Generally, any journal entry made to reverse some entry previously made by way of correction or otherwise. More particularly, entries made at the beginning of a financial year to adjust the accounts in respect to estimates used to complete the accounts at the end of the previous year.

Royalties: Agreed amounts payable to the owners of certain rights or commodities for the privilege of using or exploiting them. Among the various forms of royalties are the following:

- (1) To the copyright owner of a book, musical composition, work of art, etc.
- (2) To the owner of a patent.
- (3) To the government or others for the privilege of mining, logging, etc.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

Of the many problems that may arise out of the preparation of a consolidated balance sheet not the least intriguing is the treatment of shares of the parent company which appear as an investment on the books of a subsidiary company. The preferred solution to this problem is to persuade the management of the parent company to order the sale of these shares before the date of the consolidated balance sheet—but we shall be told that this is to avoid rather than solve the problem. If the shares persist then they must be handled somehow, but we doubt whether the problem is capable of a really logical solution because a conflict of law and fact arises out of the circumstance that the outstanding share capital of the parent company is reduced by the amount of the subsidiary's holdings and yet an accountant cannot logically give expression to a state of affairs which has no existence in law. The late Sir Gilbert Garnsey was not troubled by abstract considerations of this kind but stated without preamble in his essay on holding companies that if a subsidiary company owned shares of the parent company the par value of these shares should be treated in the consolidated balance sheet as a deduction from the issued capital of the parent company. It would seem that this is the method generally adopted but we should be much interested in hearing from any of our readers who have encountered the situation in the course of their practice. We should also like to know what our readers think of Garnsey's observation that "strictly, a reserve should be made to provide for the minority proportion of the holding company's surplus of assets over liabilities which accrues to that concern owning the parent company's shares in so far as it is in excess of the then book value of the shares held." But perhaps the August issue of the magazine is not the appropriate one in which to pose questions of this kind.

* * *

Justice Brandeis who has just retired from the Supreme Court of the United States may be remembered by accountants as the judge who in a dissenting opinion in the case

of *Eisner v. Macomber* went so far as to suggest that profits can never be determined with certainty until a business venture has been completely liquidated except in the case where the returns have at least exceeded the capital originally invested. It is disquieting to think of the effect that this view, if it had predominated, might have had upon employment amongst accountants, but at the same time it is comforting to think that in these circumstances one could not be held with certainty to have had any taxable income until one was dead.

* * *

STUDENT ASSOCIATION NOTES

ONTARIO—Toronto

The Student Association's annual golf tournament and dance was held on June 23rd at the Glen Mawr Golf Club and the weather and the pleasant surroundings, as well as the large turn-out, combined to make this "field day" a complete success. The 94 golfers who teed off were favoured with a warm sun, and although there was a strong breeze which was troublesome at times several very good scores were handed in. The G. T. Clarkson trophy for the low gross score was won by Harold A. Agar, and the prize for the second low gross score was awarded to E. Higgins. Others winning prizes were Ron. Ferguson for the low net score, and Frank Buck for the sealed hole. Last but not least, and worthy of mention in view of the labour and persistence involved, were the awards for the high gross score and for the high foursome. The former prize was won by Jim Wilson, and the latter by a foursome which included George Plummer and George Webb—whether these last four finished with the aid of lanterns is not definitely known, but it is rumoured that they were several times mistaken for greens-keepers as they wandered back and forth over the course; their prize, appropriately enough, was a small set of gardening tools.

QUEBEC

At the Annual Meeting of the Chartered Accountants Students' Society of the Province of Quebec held on July 7th in their offices in the Canada Cement Building, Mr. Howard Ross, President, reported a very successful year's work, and reviewed the general condition of the Society as it stands after approximately four years of development work. In

addition to the "pioneer" work of establishing solid foundations, the Society, Mr. Ross reported, had succeeded in being of considerable assistance to senior students about to face the final examinations of the parent Society and that a considerable measure of popularity had been attained by activities organized for these senior students. Special attention was drawn to the series of lectures on old examination questions, and handsome gifts were presented to the following lecturers for this unselfish and highly appreciated work: Arthur W. Gilmour, C. N. Knowles, P. K. Nutt, Colonel P. F. Seymour and G. Meredith Smith.

There was very little change in membership during the year. The Society will commence the coming season with a favourable balance of \$466.20 in the bank, with accrued expenses of \$200.00.

The following officers were elected for next year's executive:

Honorary Presidents—Maurice Samson, W. H. Campbell and C. G. Wallace: President—C. W. Leach, C.A.; Vice-President—Hugh B. Savage, C.A.; Secretary—John F. Lewis, C.A.; Treasurer—Jacques Buisson. Committee—John P. Weir, Andre Leroux, C.A., C. F. G. Molson, C.A., Jean Valiquette, C.A., D. F. Filliter, C. Denis Heward, J. R. Fraser, James Flavelle, P. K. Nutt, C.A., A. W. Goodman and W. G. Mackenzie. Auditors—H. J. Barclay and F. L. Grove.

At the conclusion of the meeting the Mount Royal Golf Club was the scene of the Students' Society's first field day where, under a very hot sun, the best and worst athletes vied for recognition. A golf tournament, inter-office horse-shoe pitching competition, and a baseball game between the chartered accountants and the registered students saw everyone present actively participating in the well prepared programme.

In the absence of Mr. W. E. Dunton, the handsome golf trophy donated by Mr. Dunton for the best gross score by a registered student was presented to Ben McGrath, with 84 gross, by Mr. L. C. Frewin. The low gross prize for chartered accountants was won by Norman Verity with 81 gross, while the low net for students was captured by Bev. McIntyre with 68 net, and for chartered accountants by E. S. Woolley with 65 net. The highest score for 18 holes was

turned in by R. Barriere with 174, and the highest score on any one hole gained a prize for Paul Brunet who managed to play 18 strokes on the first hole, par 4, before the ball would accept its ultimate fate. Bob Keefer won the sealed hole prize with a par 3 on the 5th hole.

The finals of the tennis tournament were played before a large and enthusiastic audience, and the F. W. Sharp trophy was won by Jesse Baldwin who defeated Ralph Linton 6-5, 6-2 after a well contested match. The inter-office horseshoe pitching contest saw the well balanced team from P. S. Ross & Sons, consisting of Dean Ladd and Bob Keefer, win the coveted golden horseshoes.

After the golf and tennis matches were completed, the registered students gained a decisive victory over the chartered accountants in a very noisy but good-humoured game of baseball with a score of 12-4, in spite of the fact that the game was umpired by the genial President of the Society of Chartered Accountants of the Province of Quebec, Mr. A. Ballantyne.

The field day finished up with a banquet in the Mount Royal Golf Club, which was presided over by the new President of the Students' Society, Mr. Campbell Leach.

At the close of the banquet the prizes were distributed, and a vote of thanks was given for the excellent work done by the social committee under the chairmanship of Hugh B. Savage in preparing such a successful field day. Since this event is the first of its kind undertaken by the Students' Society its success ensures its continuance as an annual event in the future.

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by a practising chartered accountant of the Institute from whose examinations the problem is taken and represent his views and opinions. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN

INTERMEDIATE EXAMINATIONS—NOVEMBER, 1938 MUNICIPAL ACCOUNTING AND AUDITING

Question 6

The following information relates to a rural municipality in 1937:

Municipal arrears, \$141,139.40; Public Revenue arrears, \$30,450.71; Wild Lands Tax arrears, \$1,482.54; Wild Lands penalty, \$18.26; Receipts from others: Municipal \$2,593.90, Public Revenue \$489.03, Hail Tax \$200.72; Hail Tax arrears, \$18,332.76; Penalty \$301.55; Special credits: Municipal \$401.98, Hail \$35.64, Public Revenue \$99.83; Net Taxable Land Assessment \$3,034,200.00; Public Revenue penalty, \$558.69; Telephone taxes cancelled, \$297.21; Crop reports added \$19.00; Uncollected Wild Lands Tax, \$383.46; Tax Sales restored: Municipal \$14,323.40, Public Revenue \$1,309.38, Wild Lands \$204.00, Hail \$3,684.29; Municipal penalty, \$2,095.02; General Municipal levy, 4 mills; Cancelled prepaid Hail Taxes re-levied \$879.78; Municipal Tax discount \$86.39; Prepaid taxes transferred to: Hail \$303.87, Public Revenue \$104.79, from Municipal \$408.66; Public Revenue levy 2 mills; Hail flat rate: 69,955 $\frac{1}{2}$ acres at 2 cents; Uncollected Municipal Taxes \$64,749.55; seeded rate levy, 9,129 acres at 7 cents; Assessed area in acres, 184,250; Public Revenue discount \$20.47; Municipal taxes cancelled \$67,473.96; Levies: Rural School \$8,304.46, Village Schools \$775.74, Telephone \$108.52; Town School current levy, \$1,629.60; Closest estimated population 1,352; number of resident farmers 280; Consolidated taxes restored: Municipal \$1,690.22, Hail \$417.87, Public Revenue \$257.50; Cancellations: Rural and Village School \$47,071.29, Hail Tax \$16,700.00; Uncollected Public Revenue tax \$17,191.43; Discounts Hail \$16.55; Wild Lands taxes cancelled \$1,321.34; number of grain elevators 3; Uncollected Hail Tax \$8,144.57; Public Revenue cancelled, \$20,948.71; Cash liability on Public Revenue tax January 1st \$146.74; Deposits to Provincial Treasurer's account in 1937 (Public Revenue) \$432.00.

From the above details prepare:

- (a) The statement known as "Particulars of Tax Accounts."
- (b) Statements showing amounts due the Provincial Treasurer on his tax accounts.

A. PARTICULARS OF TAX ACCOUNTS

Municipal tax arrears	\$141,339.40	Penalty..	\$2,095.02	Tax sales restored	\$14,923.40	Dr.
Public revenue arrears	30,450.71	Penalty..	558.69	Tax sales restored	1,309.38	\$157,557.82
Wild lands tax arrears	1,482.54	Penalty..	18.26	Tax sales restored	204.00	32,318.78
Hall tax arrears	13,332.76	Penalty..	301.55	Tax sales restored	3,684.29	1,704.80
Consolidated taxes restored:				Municipal		22,318.60
				Public revenue		1,690.22
				Hall		257.50
				Hall		417.87
Prepaid taxes transferred to:				Hall		303.87
				Public revenue		104.79
				From Municipal Credit (See credit side)		

Current levies:

[illegible]

Prepaid Taxes transferred from Municipal (see debit side)	Cr.	408.66
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Discounts and cancellations:	
Municipal discount, \$86.39; Municipal cancelled, \$67,473.96; Rural and village school, \$47,071.29	114,631.64
Rural telephone tax	297.21
Hall discount, \$18.55; Hall tax cancelled, \$16,700.00	16,718.55
Public revenue discount, \$20.47; Public revenue cancelled, \$20,948.71; Wild lands, \$1,321.34	22,290.52
Special credits: Municipal, \$401.98; Public revenue, \$99.83; Hall, \$35.64	537.45
Carried forward to next page	\$154,882.03

Carried forward to next page\$154,882.03

STUDENTS' DEPARTMENT

Brought forward from preceding page	\$154,882.03
Collections:	
Municipal	2,593.90
Public revenue	489.03
Hail tax	200.72
Balances Uncollected:	
Municipal	64,749.55
Public revenue	17,191.43
Wild lands	383.46
Hail	8,144.57
	<u>\$248,634.69</u>

B. STATEMENTS OF AMOUNTS DUE TO THE PROVINCIAL TREASURER ON TAX ACCOUNTS

Provincial Treasurer's Cash Liability (Public Revenue)

Cr.	
Balance January 1st.	\$ 146.74
Collections per statement	489.03
	<u>635.77</u>
Deposits to Provincial Treasurer's Account 1937	432.00
	<u>Cash Liability December 31st, 1937</u>
	\$ 203.77

Liability to Provincial Treasurer on Uncollected Public Revenue.

Cr.	
Balances January 1st.	
Uncollected Taxes per roll	\$ 30,450.71
Tax Sale Liability	1,309.38
Consolidated Taxes	257.50
Transferred from Municipal	104.79
Penalty added	558.69
Current Levy	6,068.40
	<u>\$ 38,749.47</u>

Dr.	
Collections	489.03
Special Credits	99.83
Discounts	20.47
Cancellations	20,948.71
	<u>21,558.04</u>

Liability on Uncollected Taxes December 31st, 1937 \$ 17,191.43

Liability to Provincial Treasurer on Uncollected Wild Lands Taxes:

Cr.	
Balances January 1st:	
Uncollected per roll	\$ 1,482.54
Tax Sale Liability	204.00
Penalty added	18.26
	<u>\$ 1,704.80</u>
Dr.	
Cancellations	1,321.34
	<u>Liability on Uncollected December 31st, 1937</u>
	\$ 383.46

PROBLEM II
THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SASKATCHEWAN

FINAL EXAMINATION—NOVEMBER, 1938

BUSINESS INVESTIGATIONS

Question 1

Hill has secured a road grading contract from the Department of Highways and agrees to rent road machinery from L. O. Dale. The rent to be paid for the outfit is fixed at 60% of the net earnings of the enterprise. You are engaged to settle the accounts between the parties and ascertain the following facts:

They operate a cook car and charge the workmen 60 cents per day for board. Wages cheques are issued by the Department on the engineer's reports and charged against the contract, deductions amounting to \$616.83 being held back to reimburse Hill and Dale for board.

Gross earnings of the outfit\$2,550.15
Sale of hay from stores 45.65

Board of B. Flat 47 days at 60 cents to be met by Hill personally. Gross expenses for wages, stores, etc., \$1,605.99, including \$19.01 accounts payable at the time of your investigation. Hill is to pay the liabilities and to be allowed for same.

Hill sold stores for cash and retained the money 7.60

Hill took over the residue of the stores for 3.45

Expense accounts overpaid to be collected by Hill 12.45

Included in the total expense is cash outlay by Hill of .. 109.01, \$21.35 of which is wages for U. P. Grade, which last amount is included in the deductions from wages cheques for board.

The accounts for hay sales \$45.65 were settled as follows:—G. Ravel supplied milk for stores \$18.00 and paid \$7.65 cash to Hill, who pocketed the money; the balance of \$20.00 is owing by S. Curve and Hill accepts personal responsibility for this.

Cash Advances to Dale by Hill \$74.50; Dale borrowed \$3.00 from D. Itch, which Hill guaranteed; Hill made Dale the following allowances:

Strawboss 199½ hours at 20 cents

Moving machine \$2.50

Cash outlay by Dale (included in expenses) \$31.00, for which Hill gave him an order on the Department. Other orders given by Hill on the Department against the contract were: To Dale \$700.00; to meet wages and expenses \$1,428.97 and a personal account of his own, 45 cents.

You present the following statements:

Net earnings of the outfit;
Division of net earnings;
Department of Highways account;
L. O. Dale account;
I. Hill account;
L. O. Dale income from job;
I. Hill income from job.

Produce the statements you present and show your workings. A report is not necessary.

STUDENTS' DEPARTMENT

Solution to Business Investigations Problem:

Item	Earnings and Expenses		I. Hill		L. O. Dale		Department of Highways	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Gross earnings of outfit		\$2,550.15					\$2,550.15	
Holdback from wages cheques for board (by Department)		616.83					616.83	
S. Curve hay account to be collected by Hill ..		20.00						
G. Ravel hay account paid by milk and cash to Hill	\$ 18.00							
B. Flat board charge Hill		25.65						
Hill's Expenses (Accounts Payable) assumed ..	19.01							
Stores sold; Hill retained cash		7.60		\$ 19.01				
Stores used by Hill		3.45						
Overpaid expenses to be collected by Hill		12.45						
Cash outlay by Hill, including \$21.35 U.P.								
Grade wages	109.01			109.01				
Cash advanced to Dale by Hill				74.50				
D. Itch loan to Dale guaranteed by Hill				3.00				
Strawboss allowance to Dale by Hill					\$ 39.90			
Allowance to Dale moving machine					2.50			
Cash expenses paid by Dale	31.00				31.00			
Department paid Dale order by Hill					31.00			\$ 31.00
Department paid Dale orders by Hill					700.00			700.00
Department paid expenses on orders by Hill ..	1,428.97							
Hill's private account paid by Department								
Dale 60% net earnings \$1,658.34	995.00					995.00		
Hill 40% net earnings \$1,658.34	663.34							
Balance due from Department of Highways ..					259.90			
	\$3,264.33	\$3,264.33	\$ 868.86	\$ 868.86	\$1,068.40	\$1,068.40	\$3,166.98	\$3,166.98
								1,006.56
								\$ 700.00
								1,428.97
								.45

THE CANADIAN CHARTERED ACCOUNTANT

Hill and Dale Earnings and Expenses:

Dr.			Cr.	
To milk from Ravel on hay	18.00	Gross earnings of outfit	2,550.15	
To Hill: Accounts payable	19.01	Holdback from wages for board, etc.	616.83	
		S. Curve hay account to Hill	20.00	
		Hay sold to Ravel	25.65	
To Hill; cash outlay	109.01	B. Fiat's board to Hill	28.20	
To Dale; cash outlay	31.00	By Hill; cash for stores sold	7.60	
To Department of Highways; cheques	1,428.97	By Hill; stores used	3.45	
To Balance:		By Hill; expenses overpaid	12.45	
Hill 40%	663.34			
Dale 60%	995.00			
	<u>1,658.34</u>			
	<u>\$3,264.33</u>			<u>\$3,264.33</u>

Appropriation of Net Earnings.

To Hill	40%	663.34	By Net earnings	1,658.34
To Dale	60%	995.00		
		<u>\$1,658.34</u>		<u>\$1,658.34</u>

I. HILL Account

To Earnings; Curve hay account	20.00	By Accounts payable assumed	19.01
To Cash from Ravel for hay	7.65	By Expenses; cash outlay	109.01
To Earnings account; Fiat's board	28.20	By Dale; cash advances	74.50
To Earnings account; Cash for stores sold	7.60	By Dale; Itch loaned	3.00
To Earnings account; Stores taken over	3.45	By Earnings: 40% of net	663.34
To Earnings account; Expenses overpaid	12.45		
To Dale; Strawbloss allowance	39.90		
To Dale; Moving allowance	2.50		
To Department of Highways; Personal account paid45		
Balance due from Department of Highways	746.66		
	<u>\$ 868.86</u>		<u>\$ 868.86</u>

STUDENTS' DEPARTMENT

L. O. Dale Account

Dr.			Cr.
To Hill—cash advances	\$ 74.50	By Hill—Strawboss allowance	\$ 39.90
To Hill—D. Itch Loan	3.00	By Hill—Moving machine	2.50
To Dept. Highways—cheque	31.00	By Earnings and expense—cash outlay	31.00
To Dept. Highways—cheques	700.00	By Earnings 60% net	995.00
To Balance due from Department of Highways ..	259.90		
	<u>\$1,068.40</u>		<u>\$1,068.40</u>

Department of Highways Account

Gross Earnings under contract	\$2,550.15	By cheque to Dale	\$ 31.00
Holdback from wages for board	616.83	By cheques to Dale	700.00
		By Earnings, etc.: cheques issued for expenses ..	1,428.97
		By Hill account: payment of personal account ..	.45
		Balance: Due Hill per his account	746.66
		Due Dale per his account	259.90
	<u>\$3,166.98</u>		<u>\$3,166.98</u>

THE CANADIAN CHARTERED ACCOUNTANT

I. Hill's Income From Job.

Accounts Receivable to be collected ...	\$ 20.00
Flat's Board	28.20
Cash Receipts: 7.65 plus 7.60	15.25
Stores Received	3.45
Overpayments to be collected	12.45
Personal Expense paid45
Cheque due from Department	746.66
Less: Cash Outlay	109.01
Accounts to be paid	22.01
Advances to Dale	74.50

Net Income \$ 620.94

L. O. Dale's Income From Job.

Actual receipts by Dale per his account	\$ 808.50
Balance due from Department of Highways	259.90
Less: Cash Outlay	\$1,068.40
Net Income	\$1,037.40

Reconciliation of Income.

Dale's income from job per account	\$1,037.40
Hill's income from job per account	620.94

Net Earnings \$1,658.34

Hill's 40% of net earnings	\$ 663.34
Less: Allowances to Dale	42.40

Net Income \$ 620.94

Dale's 60% net earnings	\$ 995.00
Plus: Allowances from Hill	42.40

Net income from job \$1,037.40

